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DEPARTMENT OF DEFENSE APPROPRIATIONS FOR 1990

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

SUBCOMMITTEE ON THE DEPARTMENT OF DEFENSE

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DEPARTMENT OF DEFENSE APPROPRIATIONS FOR 1990

THURSDAY, FEBRUARY 23, 1989.

DEPARTMENT OF DEFENSE DRUG PROGRAM

WITNESS

LT. GEN. STEPHEN G. OLMSTEAD, U.S. MARINE CORPS, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR DRUG POLICY AND ENFORCEMENT AND DIRECTOR, DEPARTMENT OF DEFENSE TASK FORCE ON DRUG ENFORCEMENT

MOTION TO CLOSE

Mr. MURTHA. The hearing will come to order.

We welcome General Olmstead back from retirement into the Marine Corps to do such an important job.

This is the first time you have appeared before the committee, General, and we will put your statement and biography in the record.

We have a motion. Mr. Sabo?

Mr. SABO. I move that the hearing today, February 23, 1989, and those portions of the hearings scheduled for February 28, March 1, March 2, and March 8, which involve classified material, be held in executive session because of the classification of the material to be discussed.

Mr. MURTHA. The clerk will call the roll.

[The clerk proceeded to call the roll.]

Mr. MURTHA. Madam Reporter, let the record show that on this vote Mr. Murtha, Mr. AuCoin, Mr. Sabo, Mr. McDade, Mr. Miller and Mr. Livingston voted aye.

Six Members having voted in the affirmative, this hearing is now closed.

INTRODUCTION

Mr. MURTHA. General, I had real reservations about the military being involved in the drug effort and the drug legislation that is on the Floor.

I have talked to a lot of people throughout the country and I think everybody has the same concerns. Some people are concerned about the difficulty of the military taking a police role.

There is always the danger of the military being too involved in this type of work, but in the end, it finally comes down to the fact that drug abuse has just become such a problem. We had a private conversation and I agree with you, that a real effort has to be made to stop the use. I think that is the key to stopping the drug problem. We have to stop the use.

Having said that, I am sure the new Chief of Drugs, Mr. Bennett, understands this. He is going to do everything he can to educate people and that is going to take some years.

In the meantime, the military's task is assisting in drug interdiction. If you will, explain what you have been doing and we will then ask you some questions.

SUMMARY STATEMENT OF GENERAL OLMSTEAD

General OLMSTEAD. Good morning, Mr. Chairman.

I am pleased to be here today to cooperate with this committee in our mutual effort to rid this nation of drug abuse.

You are absolutely right. It is something we all have to be committed to. I take exception to the phrase "war" until we are all committed to it—the military, the Federal hierarchy, and the people of America. That is a personal feeling.

DRUG INTERDICTION SUPPORT

I think we are all aware of the overriding importance of demand reduction as the ultimate solution to drug abuse; but our topic today is interdiction

The Defense Department continues to be a strong supporter of the overall Administration effort to stop illegal drugs from entering this country.

In fiscal year 1988, we provided in excess of 28,000 hours of aerial surveillance support, an increase of approximately 12,000 over fiscal year 1987, a definite plane of support going up.

In fiscal year 1988, our ship days in support of Coast Guard LEDETS once again totaled over 2,000.

Further, Navy ship day support increased by 23 percent from fourth quarter fiscal year 1988 to first quarter fiscal year 1989—414 to 507.

TRAINING OF PERSONNEL

I bring out these statistics to show you our effort is on an ever increasing plane in support of law enforcement agencies.

Our training of law enforcement personnel increased in fiscal year 1988 in such areas as survival skills, map reading, firearms, equipment operation, and other individual subjects which will help them as they participate in this campaign.

It will expand further in the current fiscal year in the area of language skills, as DEA agents participate in intensive 12-week Spanish courses at the Defense Language Institute.

Our continuing cooperation with law enforcement in the area of intelligence will expand.

SUMMARY

In summary, our commitment of material, manpower and dollars over the years has been significant and it will continue the upward trend which I have described.

The fiscal year 1989 budget contained more than $300 million for drug interdiction support and the fiscal year 1990 budget will show an increase over this amount.

The DOD Authorization Act for fiscal year 1989 gives DOD three new responsibilities in the drug interdiction area.

I will be pleased to respond to your questions on our detection and monitoring responsibilities, C3I, and the role of the National Guard, as well as our broader concerns with Defense Department support to civilian drug interdiction agencies.

[The biographical sketch and statement of General Olmstead follow:]

STEPHEN G. OLMSTEAD

Stephen G. Olmstead (Lieutenant General, USMC) is the Deputy Assistant Secretary of Defense for Drug Policy and Enforcement, OASD(FM&P).

General Olmstead was born in Albany, NY, November 10, 1929 and graduated from Bethlehem Central High School in 1947. He attended Champlain College in Plattsburg, NY and holds a B.S. degree in Military Science from the University of Maryland (1963) and an M.S. in International Affairs from George Washington University (1970).

Enlisting in the Marine Corps in August 1948, he participated in the Korean Conflict as a squad leader with the 3d Battalion, First Marines, 1st Marine Division. He attended the Basic School, Quantico, VA, and was commissioned a second lieutenant in June 1951.

General Olmstead remained at Quantico and served consecutively as a platoon leader and a company executive officer of the Demonstration Troops until January 1953. He also attended the U.S. Naval Justice School, Newport, RI, during this period. He was promoted to first lieutenant in October 1952. General Olmstead then served as Executive Officer, Marine Detachment, aboard the USS NORTHHAMPTON, until October 1954, when he was transferred to Manchester, NH, as Inspector-Instructor, 18th Rifle Company. He was promoted to captain in March 1954.

In October 1957, he was ordered to Camp Lejeune, NC, and served as Assistant S-3 Officer, 2d Battalion, Eighth Marines, 2d Marine Division. In January 1958, He was reassigned as a company commander, 2d Reconnaissance Battalion, 2d Marine Division, and attended the Advanced Infantry School, Fort Benning, GA, from July 1959 to May 1960.

General Olmstead was assigned to Camp Butler, Okinawa, as Assistant S-4 Officer. He returned to the United States in July 1961, and served as an instructor at the U.S. Army Intelligence School, Fort Holabird, MD. He was promoted to major in September 1961.

Transferred to the 2d Marine Division, Camp Lejeune in July 1964, he served as S-3 Officer, and S-2 Officer, Sixth Marines. During this tour he also served as Operations Officer of the 6th Marine Amphibious Unit and Regimental Landing Team-6 in the Dominican Republic. In May 1966, he was ordered to the Republic of Vietnam and served as the command briefer at the U.S. Military Assistance Command. He was promoted to lieutenant colonel in October 1966.

General Olmstead was assigned as an operations officer on the Joint Strategic Target Planning Staff, Offut Air Force Base, NE, in May 1967. He then attended the Naval War College, Newport, RI, graduating as a "Distinguished Graduate" in June 1970. Upon completing the course, he reported to Headquarters, Marine Corps, Washington, D.C. as a branch head in the G-3 Division. He was promoted to colonel in September 1971.

In July 1973 he was ordered to Okinawa, and served as Regimental Commander, Ninth Marines, 3d Marine Division. He remained in that billet until May 1974, when he was transferred to the staff of the Commander, 6th Fleet, in Gaeta, Italy, as the Fleet Marine Officer. He was advanced to brigadier general on April 1, 1976 and assigned duty as Director, Development Center, Marine Corps Development and Education Command, Quantico, VA on June 15, 1976. During the period Jan. 1, 1977 to May 8, 1977, he was assigned additional duty of Deputy Chief of Staff, Research, Development and Studies, Headquarters Marine Corps.

General Olmstead was advanced to major general on May 23, 1978 and was assigned duty as Commanding General, Marine Corps Base, Camp Pendleton, CA on June 30, 1978. He assumed duty as the Commanding General, III Marine Amphibious Force/Commanding General, 3d Marine Division, FMF, Pacific, Okinawa, Japan in July 1980. On June 29, 1982 he was assigned duty as the Deputy Chief of Staff for Reserve Affairs, Headquarters Marine Corps. He served in this capacity until July 1984 when he became Commanding General, Marine Corps Recruit Depot/Commanding General, Eastern Recruiting Region, Parris Island, South Carolina. He retired from active duty on 30 June 1986 and assumed his current position in August 1986. He was recalled to active duty on December 1, 1986 in the grade of Major General. General Olmstead was promoted to Lieutenant General on March 25, 1987. In June 1987 he served as a U.S. delegate to the United Nations Conference on Drug Abuse and Illicit Trafficking.

General Olmstead's decorations and medals include: the Distinguished Service Medal; the Legion of Merit; the Bronze Star Medal; Joint Service Commendation Medal; Navy Commendation Medal; the Army Commendation Medal; the Presidential Unit Citation; Navy Unit Commendation; and the Republic of Korea Cheonsu Medal.

Lieutenant General Olmstead and his wife, the former Vera L. Mead of Bucyrus, Ohio have three children, Barbara J. (Mrs. Theodore R. Schneble), Elizabeth A. (Mrs. Michael L. Love), and Stephen G. (a Marine officer).

STATEMENT OF LIEUTENANT GENERAL STEPHEN G. OLMSTEAD
DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR DRUG POLICY AND ENFORCEMENT

Mr. Chairman, Members of the Committee:

It is a pleasure to be here today as we continue our mutual struggle to rid this Nation of the horrors of drug abuse. While we are all aware of the overriding importance of demand reduction as the ultimate solution to drug abuse, our topic today is interdiction. Specifically, the 100th Congress passed Public Law 100-456 which assigns to DoD the lead agency responsibility for detection and monitoring of aerial and maritime drug smuggling threats to the United States. It also directs us to integrate U.S. command, control, communications and technical intelligence (C3I) assets dedicated to drug interdiction into an effective communications network and to oversee a program of enhanced use of the National Guard, under the direction of state governors, in the battle against drug smuggling. My brief statement today will address each of these three new areas of responsibility and then I will be pleased to respond to your questions.

By memorandum of January 6, the Secretary of Defense issued new DoD policy guidelines to accomplish the added responsibilities assigned to DoD in Public Law 100-456. He assigned to the Assistant Secretary of Defense for Force Management and Personnel the task of providing overall DoD direction and fiscal oversight for implementation of these new responsibilities. Under that Assistant Secretary, he also established a new directorate within the Office of the Deputy Assistant Secretary for Drug Policy and Enforcement to manage the additional functions. This directorate includes full-time senior liaison officers from the U.S. Coast Guard and the U.S. Customs Service to ensure close, continuous interaction between DoD and the law enforcement community. Arrangements are nearly complete for the Immigration and Naturalization Service/Border Patrol to provide similar representation.

Let me describe the manner in which we approached our new detection and monitoring mission.

The decision was made to attack the problem by pursuing a regional approach, through the Commanders-in-Chief (CINCs) responsible for actions in the region. This was done in recognition of the differences in the drug smuggling threat and to avoid creating a large, new national-level organization. This decision, along with a request for broad plans known as courses of action, describing how they would implement the mission, was transmitted to the four affected CINCs in early December 1988. The CINCs were asked to respond with their proposed courses of action by December 20, 1988.

Late last year, the Office of the Secretary of Defense (OSD) and the Joint Chiefs reviewed those broad plans and, in early January, the Secretary of Defense approved the CINCs' plans in concept. He also directed the CINCs to conduct detailed planning with respect to their proposed courses of action and to submit operations orders containing specific planning details by January 20. After a thorough review, the Secretary of Defense approved them in a message sent to all relevant commands on February 3. Essentially these operations orders describe DoD's role as the lead agency for detection and monitoring as it will be implemented on a regional basis by the CINCs.

The CINCs of two of the four commands responsible for the detection and monitoring mission have chosen to form joint task forces to serve as an extension of their authority, and to conduct antidrug surveillance operations in their areas of responsibility -- the Pacific and Atlantic. Both of these CINCs have selected top level U.S. Coast Guard officers to head their respective task forces on a full-time basis. Vice Admiral James C. Irwin will command Joint Task Force 4 on the Atlantic coast from Key West, Florida and will report directly to the Commander-in-Chief of Atlantic Forces in Norfolk, Virginia. Rear Admiral William P. Leahy Jr. will command Joint Task Force 5 on the Pacific coast from Alameda, California, and will report directly to the Commander-in-Chief of Pacific Forces at Pearl Harbor, Hawaii. Other major commands responsible for this mission are the North American Aerospace Defense Command and the United States Southern Command. The supported CINCs have plans to develop fully integrated staffs to include representatives from the U.S. Coast Guard, U.S. Customs Service and other appropriate law enforcement agencies.

These joint tasks forces will focus on the detection and monitoring efforts of the military and all relevant drug law enforcement agencies as directed by the legislation. They will coordinate the employment of the detection and monitoring assets of both DoD and the law enforcement agencies to maximize the effectiveness of these assets and to avoid duplication of effort. Their efforts will be aimed toward collecting and managing target information and providing that information in a refined manner, to the law enforcement interdiction forces.

Now let me turn to our work in the C3I area. Beginning in April 1987, DoD assumed the chairmanship of the Interagency Working Group for Drug Enforcement Communications which developed a Master Plan for Drug Enforcement Communications, governmentwide. This Master Plan was approved by the National Drug Policy Board which tasked its Science and Technology Committee to develop an implementation plan. We intend to use this Master Plan as the basis for accomplishing the communications integration of the various agencies' C3I assets dedicated to drug interdiction. We will do so by updating, modifying, connecting, protecting and securing relevant communications systems. Our efforts will focus specifically on the interdiction and supporting intelligence functional areas of the Master Plan and will be supported by maximum interagency cooperation among the primary user agencies. The congressionally mandated communications integration report, due on May 1 of this year, will reflect this close interagency cooperation. It will include an implementation strategy that articulates roles and responsibilities, an acquisition strategy that capitalizes on economies of scale, and a funding strategy to identify the communications infrastructure necessary to support the interdiction and related intelligence functions.

Finally, let me comment on the role of the National Guard. Last October, the Congress provided DoD with the authority to enhance the role of the National Guard, employed under the direction of the state governors, in the drug interdiction support area. A minimum of $40 million was appropriated for the Department of Defense to allocate to the states in support of this enhanced role. The legislation clearly stipulated that this activity would be over and above the current federal, annual training requirements.

A state's eligibility for DoD funding is dependent on approval by the Secretary of Defense, in consultation with the Attorney General, of the state's plan for the use of the funds. Accordingly, on October 14, 1988, the Chief of the National Guard Bureau asked each state Adjutant General, on behalf of the state's governor, to submit a state plan. Each state-submitted plan was to include all projected support for drug enforcement, along with total numbers of missions for both Army and Air National Guard, mission descriptions, a designation of whether the mission would be an interdiction or eradication mission, and projected cost estimates. States were requested to provide written notification to the National Guard Bureau (NGB) of an intent not to participate in this program.

To date, we have received responses from all states, territories, possessions, and the District of Columbia. Fifty-one plans have been received by NGB and two states and Guam do not plan to use the appropriations. The plans of thirteen border and port states were the first to be reviewed and approved by the NGB as they are in the highest priority interdiction areas. The Army and the Air Force, Joint Staff, and the OSD staff have also scrutinized them and they are now being reviewed by the Attorney General. The National Guard Bureau has approved and forwarded the remaining plans. Those plans are in the final DoD review process. Activities described in the states' plans include the following: (1) detection and monitoring through flight crew surveillance; (2) aerial photography and other imagery; (3) radar surveillance; (4) long range reconnaissance; (5) container search; (6) transportation of law enforcement personnel, equipment and contraband substances; and (7) increased equipment loans.

I must point out that this enhanced program of DoD activities which I have been discussing is in addition to the on-going, significant DoD contribution to the Nation's drug interdiction efforts. In FY 1988, we flew in excess of 28,000 hours of aerial surveillance support, provided over 2,000 ship days to the Coast Guard's LEDET program and we currently have more than $300 million in DoD equipment on loan to civilian law enforcement agencies. Also during the last fiscal year, we identified and made available at no-cost 26 operable UH-1H "Huey" helicopters to the Department of State for use overseas. By letter of January 24 to the Attorney General, we offered 15-P3A aircraft to the law enforcement agencies. Our training support to law enforcement agencies expanded and will increase further this year.

In summary, the Department of Defense remains committed to doing its share and more in the Nation's efforts to combat drug abuse. We look forward to working with Congress and the law enforcement agencies involved in this endeavor. As we have done consistently over the years, we intend to apply our very best efforts to this formidable yet essential undertaking.

COMMAND AUTHORITY AND STRUCTURE

Mr. MURTHA. General, would you go over the command structure? For instance, the thing that concerns me the most is—and I think you are absolutely right in your assessment—we keep saying it is a war, but we don't see any signs of that war. When you are fighting a war, everybody has got to be going in the same direction.

What is the command structure right now, not in the military, but how you fit into the thing and then how you get your orders? I know you are carrying out what you are told to do, but how does the whole structure work?

General OLMSTEAD. As of now, Mr. Chairman, we are still operating under the National Drug Policy Board arrangement, recognizing that Congress has said that once our drug czar, or the Director of the Office of Drug Control Policy, is in place, the National Drug Policy Board will be phased out.

Mr. MURTHA. That is the old policy board, but isn't there a new policy board?

General OLMSTEAD. The new board is the Office of the Director of Drug Control Policy, Mr. Bennett.

Mr. MURTHA. You will be a member of that board?

General OLMSTEAD. I don't know, sir. None of those decisions, to my mind, have been made. I will describe how we operate now.

The National Drug Policy Board is chaired by the Attorney General. The cochairman is the Secretary of Health and Human Services. The board is literally the Cabinet of the United States. They meet formally at least once a month.

Their operative agencies are three coordinating groups. One of them deals with law enforcement. The Law Enforcement Coordinating Group is chaired by the Associate Attorney General and cochaired by the Assistant Secretary of the Treasury for Law Enforcement.

That consists of the cops, the FBI, the DEA, Customs, the Coast Guard, the Marshals Service, the Department of State, and I sit on that board representing the Department of Defense.

The strategies ongoing involving that particular organization are strategies of intelligence to come up with a national strategy for intelligence in the war on drugs. This is under the auspices of Mr. Jack Lawn, who is the Administrator of the Drug Enforcement Administration.

INTELLIGENCE INFORMATION

Mr. MURTHA. What are the intelligence agencies that you get your information from?

General OLMSTEAD. The entire intelligence community.

Mr. MURTHA. There is someone that they report to and tasks them; is that right?

General OLMSTEAD. The intelligence strategy developed by the Intelligence Subcommittee has representatives from all of the intelligence community.

DOD has at least four representatives on it. We are trying to find ways to better assess the intelligence which is available, and one of the great problems, Mr. Chairman, is that a lot of the intelligence out there cannot be used in a prosecutorial manner by the agencies. We have to find some way to clean, to sanitize, that intelligence so the prosecutors can use it.

Mr. MURTHA. Is that because of compromising the people involved?

General OLMSTEAD. That is an important consideration. Also, the judge might reveal a source and we can't give up the sources.

Mr. AuCOIN. What is the second reason?

General OLMSTEAD. The sources. We don't want to reveal the sources.

Mr. McDADE. I assume that the Agency is part of that?

General OLMSTEAD. Yes, sir.

Mr. McDADE. Don't we have a complete stricture against the use of intelligence gathering by the CIA against citizens inside the country?

General OLMSTEAD. Yes, and that is adhered to very strongly, sir.

Mr. McDADE. What about DIA evidentiary material against a citizen of the country?

General OLMSTEAD. All of it is cleansed until it is squeaky clean and the prosecutors can use it.

Mr. McDADE. I don't follow because I can see the dilemma when we try to deal with this problem. Say it originates in Colombia and you get U.S. citizens in the loop. You said your board is composed of the spectrum of intelligence agencies——

General OLMSTEAD. The contributions of the agencies that we get deal with the support that they can give us on how to collect it.

Mr. MURTHA. So you are saying that the intelligence gathering adheres to the law. The CIA collects the information outside the country, or DIA, and whatever their functions are the drug intelligence applies to the law?

General OLMSTEAD. Yes, sir.

I would tell you that the people in the prosecution area bend over backwards to make sure. They want good cases all the time.

Mr. MURTHA. The other thing we are concerned about, in addition to that, is the concern we have had right along: not only does the military use a lot of the resources, we don't want the intelligence community spying on citizens in the United States. That is the danger in drug interdiction.

Well, I have a real concern about intelligence activities, IRS, and these things. We want to end it, but we don't want to end our freedom at the same time.

You feel comfortable that the intelligence you are gathering is not going beyond any of these bounds?

General OLMSTEAD. Yes, sir.

I can't believe that anybody is trying to shade it.

Mr. MURTHA. Sometimes when we try to solve the problem, we go beyond——

General OLMSTEAD. I don't see that, Mr. Chairman.

That is one of the strategies of the coordinating group.

INTERNATIONAL STRATEGY

Another strategy is the international strategy. Perhaps that was one of the considerations just now. The international strategy of the coordination group is run by the Deputy Assistant Secretary of State for International Drug Matters.

It is this committee's obligation to coordinate all the capabilities of the many drug agencies and see how we can help the people overseas legally, particularly the operations of the DEA overseas.

Mr. MURTHA. Let's take an example. It is so complicated, I know we could spend all day on intelligence.

In Colombia, we have guerrillas on the one hand, they are fighting guerrilla war. Our people are prohibited from helping to fight against the guerrillas.

Whether we agree with that policy or not, that is the policy and yet we are, I assume, allowed under the law to fight against drug dealers.

Is that an accurate assessment of where we are?

General OLMSTEAD. Certain of us are, Mr. Chairman.

For example, in Latin America, we don't have any military fighting against drug dealers right now. The DEA agents are down there. They are supported by resources from us.

Mr. MURTHA. Were they requested by the country to come in or did we take the initiative? How did we get down there?

General OLMSTEAD. It is run by the embassy team. The ambassador coordinates it. Whether it is an idea of the president of the country or a suggested idea, I don't know.

[CLERK'S NOTE.—Discussion off the record.]

Mr. MURTHA. How do we go into a country—do we tell him that we have drug agents in the country?

General OLMSTEAD. Yes, sir.

Mr. MURTHA. So if their system is compromised, our drug agents are down the drain.

General OLMSTEAD. We have to be concerned about that. We are there at the invitation of the host country. Most of our agents are there in a police advisory or training type of role.

The Latin American countries will accept civilian help, training and cooperation much more than would a Yankee uniform down there. We are very careful about that.

INFORMATION USE AND PROSECUTION

Mr. MURTHA. So in the intelligence gathering you are still in the process of working out the details. When you get intelligence that there are drugs coming into the United States, what happens?

General OLMSTEAD. You kind of jumped a little bit ahead of me there.

The Intelligence Committee which I am talking about is the one that develops the strategic policies and how they are going to use it.

If I can, I will show you how we use intelligence in a tactical sense as we get into the operations. You have the Intelligence Subcommittee and the International Subcommittee, in which DOD also participates.

You have a Prosecution Subcommittee; the Department of Justice runs that. The determination is made who to really go after, who can really concentrate on that.

Mr. **Murtha**. For instance, who would make a decision to go after Noriega? I think is was a terrible decision because there is no opposition there in the long run.

Would that decision be made differently now?

General **Olmstead**. I don't know. I can't answer that, sir.

The process of recommendation would come from the Subcommittee of Investigation.

Mr. **Murtha**. Did that decision to prosecute Noriega come from them?

General **Olmstead**. No, sir. I don't sit on the Investigation Committee so I don't know how that started.

DOD CONTRIBUTION TO DRUG INTERDICTION

Now, the sixth subcommittee I think will be of interest to you, the one called the Interdiction Committee. That is the one that is charged with manning our borders.

The Interdiction Committee, called TIC, is headed by Mr. von Raab, the Commissioner of the U.S. Customs Service and cochaired by the Commandant of the Coast Guard, Admiral Yost.

Their responsibilities are to interdict aerial, maritime and land drug smugglers coming into our country.

We sit on that. Even before last year's authorization bill we were key players providing material support to them. We loaned them $300 million worth of gear last year to include the E-2C aircraft.

Mr. **Murtha**. Is that out of the $300 million?

General **Olmstead**. A year ago, fiscal year 1987, that is right. It was part of the 1987 amount. We bought aerostats for them, the large ballon that we put at 10,000 feet with a 150-mile-radius radar on it. We bought Blackhawk helicopters which we loaned to the Customs Service. The gamut of things that we loaned the law enforcement agency, particularly in the interdiction phase, runs all the way from rifles to sophisticated planes.

We have almost 90 planes on loan now to the cops. We heard last winter that our border patrol agents were being out-gunned. Some were carrying Uzis. So we got 3,000 rifles from the Marine Corps to help equal the fire power. That is the kind of thing that we did contribute.

We will continue to do that—I will testify that our plane of support is not going to go down. We are at a floor and are going to continue to go up.

With the authorization responsibilities of last year, we are the lead agency of a segment of the entire interdiction process. Interdiction, of course, means detecting who it is, monitoring and tracking as they come towards you and then the apprehension and the arrest phase. The Congress, in very good wisdom, I think, kept us away from the arrest phase. You are concerned about intelligence agencies reporting on American citizens. I don't want us putting handcuffs on American citizens.

Now we have the responsibility on the front end of that interdiction. We are going to do that. My colleague General Kelley from the Joint Chiefs says we are having the warfighters do the detection and monitoring.

We are tasking the Commanders-in-Chief of the Atlantic, the Pacific, NORAD and support from CINCSOUTH to actually develop a detection and monitoring plan using their assets.

One of the guidelines that the Secretary of Defense gave these CINCs as they developed their war plans is that you have to do at least what you did in 1987.

In other words, we don't want them coming back and saying, "Here is the great thing I am doing." We have to do at least what we did in 1987. Then we want them to come up with hopefully more efficient ways of detecting, monitoring, and having the capability to turn over to the cops for arrest, the smugglers coming in.

The mission assigns us the responsibility of detecting illegal smugglers, naval and air. That is what we are concentrating on now.

The execute order is out to the CINCs to do that. I would presume that they would have bands of defense using various sensors, whether they are aerostatic ones or airborne platforms or whether they are a variety of ships that they are going to use—I would hope that we are taxing our imagination in the military and OSD staff to come up with a better way to detect a smuggler coming in.

ORGANIZATION OF NATIONAL POLICY BOARD

That is a lot of talk about one of the three committees in the organization as of today. Another committee is what I call the People Committee and that deals with demand reduction. That is chaired by the Assistant to the President for Drug Abuse. Right now, that chair is empty, so they haven't met this month. It is mostly the people agencies of the Federal Government, Labor, HHS, HUD, OMB. We sit on it simply because the Secretary of Defense can influence about 12 million people with policies on testing and antidrug matters.

A third committee is the Science and Technology Committee. That is brand-new, only about six months old. We have taken the technological experts in each one of the Federal agencies involved in this, the head scientists, and we get together in a room and the dialogue is fascinating.

Somebody from DEA says, "I have found a new tagent," and the FBI says I worked on that a year ago.

We are working on the requirements that the operators have for trying to find things industry can do to help us in the fight.

PROBLEMS OF DETECTION/INTERDICTION

We view as one of our biggest problems right now how to inspect containers. We have 7.5 million sea-van-like containers that come into our country every year. The current mode of inspection is manual, you open it up and you take the contents out. We are lucky if we get two or three percent of them inspected.

Mr. MURTHA. What percentage of drugs come in through containers?

General OLMSTEAD. People also ask what percentage comes in by flight, what percentage by mule, what percent comes in by boat. I don't have an adequate response and I don't think anybody does because the bad guys aren't very open about what they do.

Mr. MURTHA. It is obvious if that is the hardest to inspect that would be the most likely place to hide the drugs.

General OLMSTEAD. We are doing better in interdicting small planes. The Coast Guard is doing better in interdicting small boats.

Yes, the entrepreneurs are always going to try to smuggle in cocaine, but on a grand scale, I think we are doing better.

The smuggler is kind of like quicksilver—if you block off South Florida, he just slips around the side and goes in another place.

My colleagues in the Border Patrol are very concerned about the Mexican Border. They say the successes that you are enjoying or going to enjoy on maritime and naval are going to force the bad guys to come across the border. We are going to have to address that sometime, too.

I can't answer your question. I don't know anybody that can tell you what percent comes in by containers. My personal suspicion is that a lot of it comes in, based upon the spectacular hits we have had. The biggest was Fort Lauderdale a year ago last Christmas and in two containers they got almost nine tons of cocaine.

Mr. MURTHA. How did you discover that?

General OLMSTEAD. That was found by intelligence.

VALUE OF ILLEGAL DRUGS

Mr. McDADE. What is the street value?

General OLMSTEAD. Street value is going down. I don't know what that nine tons was worth last Christmas—in New York, it will get you $14,000 for a kilo.

Mr. McDADE. Nine tons—what does that amount to?

Mr. MURTHA. And the price is going down which means they are getting more in.

General OLMSTEAD. Since I have been on the job, there are two things that really disturb me: The price of cocaine has gone from $23,000 a kilo down to $14,000 a kilo, and the toxicity or the strength of it is going up. To quote a colleague in the DEA, there is a glut of cocaine on the market right now.

Mr. MILLER. Mr. Chairman, would you yield?

Mr. MURTHA. Yes.

USE OF TECHNOLOGY IN DETECTION

Mr. MILLER. General, several years ago I heard in another subcommittee on Appropriations about the problem of the drugs coming in in containers, and up until now, apparently we have not accomplished anything.

We cannot open all the containers and inspect every item, but there was a suggestion that was made at the time that an opening would be made on each container and dogs could be used, or with the technology that we have today instrumentation could be used in order to "sniff" what is in the container and determine whether there are drugs in that container.

Is there anyone doing any research, attempting to solve the problem?

General OLMSTEAD. Yes, Mr. Miller.

I hope I am protecting propriety rights of the companies that are trying to sell these things to us. We are looking at a number of things. We are looking at a company up in Massachusetts which believes that it can bore a small hole in the container and agitate the air, then take a sample of that and tell us whether cocaine has been in there.

We are looking at special X-rays. There is a company in England which is trying to sell us that. We are looking at a number of things.

That is, as I said, the prime project of our science and technology.

We have invited, through Commerce Business Daily and other means, industry representatives to meet us in Washington here on March 16. We are going to redefine the problem, and ask industry to tell us how to solve it. Technology hasn't come up with an answer yet. A lot of people are working on it. We have got to find something that can do it. Dogs are good, but for a very brief time. Dogs tire fast and in the heat, their duration is limited to minutes of inspection.

I want some kind of a machine and so does industry. By the way, this is going to be very expensive. They want a machine. You put it on a runner and it peaks, whether through infrared, or mass spectro examination. It peaks in and says there is cocaine.

Mr. **MILLER**. Has there been any effort to test some of the equipment that is possibly on the market today?

General **OLMSTEAD**. Yes.

We have had it in Logan Airport. We have had them in Miami Airport. We are not finding them very efficient so far.

Mr. **MILLER**. Have you found any drugs because of the instrumentation that is being used?

General **OLMSTEAD**. If any, almost accidentially. Most of these things were built as a result of the requirement to investigate firearms, to locate firearms and explosives. Another industry is being developed here, the anti-drug or the drug exposure one.

The companies all started out with some kind of examination to tell you if there were explosives in the container and they are hitchhiking on that effort for anti-drug investigations.

Mr. **MILLER**. It has to be about nine years ago I first received information about interdiction through instrumentation, and in that length of time, it seems that, private industry would have come up with some type of instrument that could be used.

That is my question; are we pushing—even if we had to furnish some money for research and development, for development of equipment that will detect drugs by using air samples from containers?

We don't seem to be rolling in that direction.

General **OLMSTEAD**. We are rolling in that direction, but it would be fraudulent for me to tell you we are picking up the drugs with any accuracy.

Eight years startles me, because I have been talking about this for two years and most people look at me and say, "What are you talking about?" That is something new.

We are bringing industry together here March 16 to look at it.

We see that in this science group as the number one challenge.

Mr. **MILLER**. I can pick up the statement in the hearing—I would say eight years ago—where that suggestion was made to Customs, and that doesn't help us now, other than the fact that we are still not accomplishing anything in that area.

Thank you, Mr. Chairman.

FEDERAL AGENCY COOPERATION

Mr. **Murtha**. Let me just ask you, General, do you get all the cooperation you need as a three star?

Is there any need to upgrade your position?

I am talking about in this whole bureaucratic maze, when you are asked to do something, are you able to get the assets you need without any trouble?

General **Olmstead**. Under the existing arrangement, yes, but I have no knowledge, Mr. Chairman, of how we are going to do things after the drug czar takes office.

COST OF ILLEGAL DRUGS

Sir, I have a number—I don't know if my experts want to be responsible for it, they said $13 million to $14 million.

Mr. **McDade**. That is at $14,000 a kilo?

General **Olmstead**. Yes, sir.

Mr. **McDade**. Our mathematicians here say about a half a billion dollars.

General **Olmstead**. The most recent seizure was frozen citrus fruit. The container was labeled citrus fruit and there was a block of cocaine in the middle of the citrus fruit, 450 pounds total.

Mr. **Sabo**. What will be the source value of it rather than the street value? What is the investment in it by the producers rather than what they can sell it for?

General **Olmstead**. I would like to provide you with that answer. It escalates, remarkably, from the poor little compasino picking the stuff to the guy that is pushing it on 14th and U Streets. The guys that are making the money live in Colombia.

I will do that for you.

Mr. **Sabo**. Just so we have a sense of what they have at risk.

Mr. **McDade**. It is a pittance in relation to the standpoint of risk to the pusher or whatever you want to call them, the manufacturer. It is a pittance.

General **Omlmstead**. Yes. That is available.

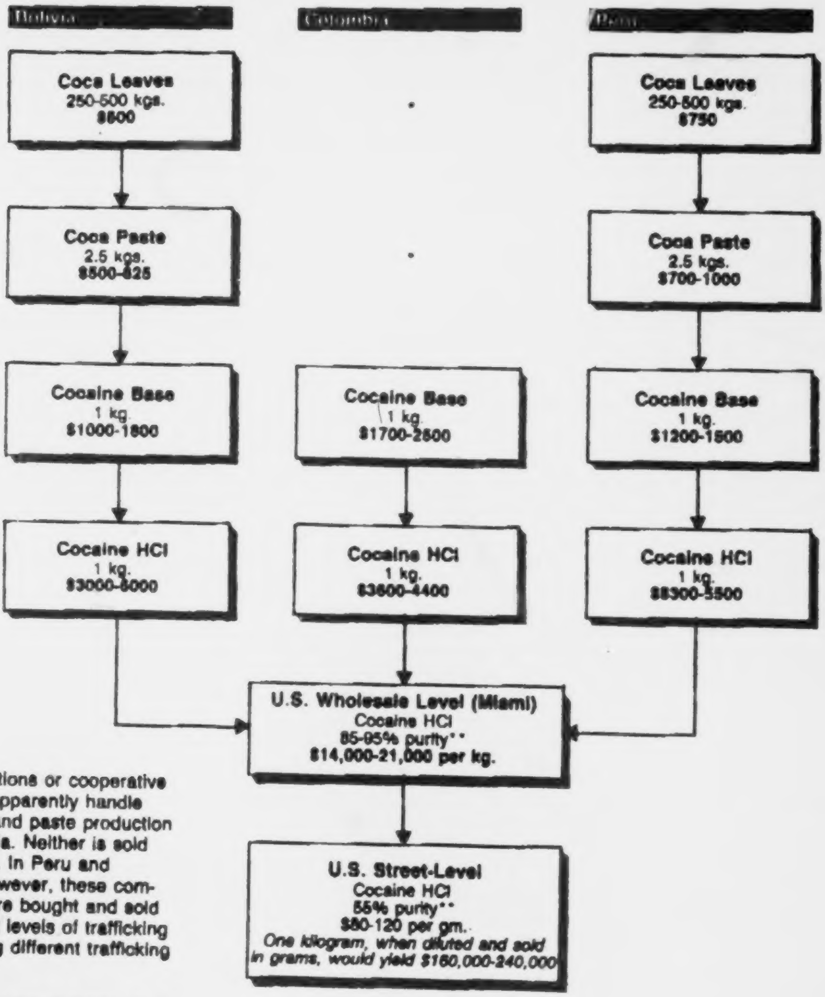
Mr. **Sabo**. So if they lose a high portion of what they originally ship, that is negligible in the profit?

General **Olmstead**. Well, if they lose a plane, that is part of the business, but I will get that for you—from the cost of the leaf to either the line or the crack—that is available.

[The information follows:]

Cocaine

Selling Prices for the Equivalent of One Kilogram of Cocaine at Successive Stages of Trafficking.


Bolivia
Colombia
Peru
Coca Leaves
250-500 kgs.
$500
*
Coca Leaves
250-500 kgs.
$750
Coca Paste
2.5 kgs.
$500-625
*
Coca Paste
2.5 kgs.
$700-1000
Cocaine Base
1 kg.
$1000-1800
Cocaine Base
1 kg.
$1700-2500
Cocaine Base
1 kg.
$1200-1500
Cocaine HCl
1 kg.
$3000-5000
Cocaine HCl
1 kg.
$3600-4400
Cocaine HCl
1 kg.
$3300-3500
U.S. Wholesale Level (Miami)
Cocaine HCl
85-95% purity**
$14,000-21,000 per kg.
U.S. Street-Level
Cocaine HCl
55% purity**
$80-120 per gm.
One kilogram, when diluted and sold in grams, would yield $160,000-240,000

*Organizations or cooperative ventures apparently handle both leaf and paste production in Colombia. Neither is sold separately. In Peru and Bolivia, however, these commodities are bought and sold at different levels of trafficking and among different trafficking groups.

**All prices are in terms of undiluted product. Prevailing purities at distribution levels are indicated merely for convenience.

BACKGROUND OF GENERAL OLMSTEAD

Mr. McDade. General, I just wanted to take a second—how many years did you spend in the military before you retired?

General Olmstead. The first time, sir?

Mr. McDade. Yes.

General Olmstead. Thirty-eight years. I was retired—my former chief of staff is with me, so he keeps me straight on this.

I retired 30 June and on 18 August, I was called back and they put me back in uniform on 1 December. I had 38 days retirement.

Mr. McDade. So you did 38 years, you had 38 days off, and now you are back for all practical purposes as far as the Committee is concerned as a volunteer leading this effort.

I want you to know we are aware of what went on upstairs yesterday in the Armed Services Committee and the thrusts that come to you to do this, to solve this problem as if you had some kind of a magic rabbit to pull out of a hat.

We know it is a much more complex and difficult problem than that.

I want to take a second to let you know that this Committee wants to pay you a debt of gratitude for being a volunteer in what is a difficult administrative situation, with a lot of visibility and people shooting at you, and we are aware that you are giving a lot of yourself when you could be out chasing blue birds or a golf ball.

We thank you.

General Olmstead. It is a frustrating job at many times, but the great salvation is that I do think we can win.

There are some wonderful people that feel that way and we are ready to work together. We have to try everything.

PROPER ROLE OF MILITARY IN INTERDICTION

Mr. McDade. We have no doubt of that.

I know the GAO is doing a study trying to determine what the proper role of the military is and what you ought to do. We keep going back and forth.

We see you in a position today where we have a newly appointed czar who has yet to become the czar. You have a lot of experience not only in the military, but now about two years in this very difficult task.

I wanted to get your personal opinion about what you think your proper role is.

I know there has been a lot of resistance to having the military involved in this drug situation. I just wanted to ask you to volunteer your thoughts to us to try to educate us because as you have said I think so appropriately, we are all on the same team here.

This Committee wants to support you to the fullest to give you the necessary assets, to see that you have the necessary access to the chain of command, to see that this is coordinated so we are doing the best we can do in a very difficult situation and making the right decisions.

You have mentioned all the committees you sit on. What does it look like?

Give us your perspective a little bit, would you please?

General Olmstead. If I put things in perspective, first, based upon my military career, sir, I know how horrible war is. One of the jobs I had years ago was in the Joint Strategic Target Staff. I know how horrible that kind of world would be. We talked about, as I recall in those days, 130 to 150 million casualties.

I have that in the back of my mind all the time I am thinking about this war. That is a war that we can't ever allow to happen. That is a war that the American people rightfully expect the Armed Forces of the United States to prevent.

So if I were the god of all drug things, I would say "Okay, you guys in the military make sure that that 150 million casualty war doesn't start." You have to do things to make sure that doesn't happen.

There is another conflict going on right now and that is one that last year killed about 5,800 people in overdoses and probably another 5,000 ancillary, murders and things like that.

What do you do about the 10,000 Americans that are dying and others that have their lives ruined by the import of drugs?

What can you and the military do to help on that?

ASSISTANCE TO OTHER FEDERAL AGENCIES

Mr. McDade, I think there is an awful lot we can do in the way of support with things that are not being used at a specific time. Many people suggest that we have training exercises down on the border. That is not too practical. In the first place, we don't own that property. We would have to rent it. We have to find innovative ways to come up with support. I think the best way to do that is to reinforce the drug enforcement agencies the best we can. Make sure they have the training, if it is as basic as making sure all the DEA agents speak Spanish. Two years ago, we sent people to Bolivia that spoke less Spanish than I do. You have the language institutes. Has the bilingual capability of the DEA improved?

General Olmstead. Yes, sir. It was nothing, so it is certainly improving now. Basic physical skills—the agents now not only go through their training at Quantico, but we send them through the Jungle Warfare Training School in Panama. So I think there are many things that we can do in support. It is only limited by our imagination. The best way to do that is for somebody like me to sit down with the head of DEA and the Coast Guard, saying, "What are your problems? Here is the way to do that."

We have a lot of things that fit into the detection and monitoring capability we have been given. We are going to have to evaluate the proper way to use those and that is going to take a little time, probably this summer, to see if we can use those things.

Mr. McDade. For example?

General Olmstead. Aircraft. The aircraft that you bought us was designed to look for submarines, for high-flying aircraft not necessarily small sailboats. So we are going to have to assess how we can do those things. But I think we can make make a major contribution.

EXTENT OF DRUG PROBLEM IN THE UNITED STATES

If you will allow me a bit of philosophy, you referred to the GAO report. I think one of the strengths of that report, while it doesn't come out and say it, it says even if you could interdict 88,000 miles, we wouldn't stop the problem.

More and more of this stuff is going to be grown domestically. Sunday's paper had that article on crack in Texas.

Mr. McDade. Manufactured in the USA, right?

General Olmstead. That is my point. We know that 25 to 30 percent of the marijuana used in the United States is grown domestically.

Mr. McDade. Crack is produced domestically?

General Olmstead. Crack is a derivation of cocaine.

Mr. McDade. Isn't that a cocaine base?

General Olmstead. Yes. Mostly it is adding baking soda and then you cook it down into little pieces that look like chips of paint. You can mold it so it looks like a French fry if you want, but it is a derivative of cocaine. Crack is a very potent thing. Its characteristics frightens the cops more than anything else.

Mr. Livingston. If the gentleman would yield, I just came from another hearing where Judge Webster was testifying. He pointed out that all the cocaine produced in Latin America requires ether as part of its production process and that 80 percent of the ether used in Latin American production of cocaine actually originates in the United States.

General Olmstead. Crack scares us to death, Congressman, because of the way it is inhaled, the instant effect—6 to 10 seconds. It is a tremendous high. The high sometimes is as short as 16 minutes and then we find a great depression comes over them.

It is a false economy because you can get it from $5 a hit on 134th Street and people think it is cheap. It is the most addictive form of drugs that we have on the market right now.

Mr. McDade. So you are talking about even if we were arm to arm or the border and referring to that GAO report, you made a point that some things are produced domestically——

General Olmstead. We wouldn't stop the problem.

Mr. McDade. So you are saying interdiction is not the solution to the problem. It is part of the solution?

General Olmstead. I am a great believer that demand reduction is the solution. We also have to have an eradication program in Bolivia and Peru and Colombia.

DRUG ERADICATION

Mr. McDade. Let me pose a question I get back home, why don't we go down and clean up that mess? Why don't we go down and eradicate all that stuff? We have a government there that seems to be directed by the influence of billions of dollars.

You have a threat to national security, and I think most of us in this room would say this is a problem that is at the highest level of the national security of the country.

So if the problem is eradication, what prevents us from eradicating it?

General **Olmstead**. I don't think that is a total answer. I don't want to be flip with you, but 80 percent of the cocaine which comes into America comes from two small areas, one in the Upper Huallaga Valley, and the other in the Chapare Jungle, both the size of New Jersey.

We know where the stuff is grown. Can we wipe it out? We could win a war-like activity in the truest sense.

Mr. **McDade**. If we had a national decision to eradicate those two areas to squelch 80 percent coming into the country—how long would that take?

General **Olmstead**. How are you going to do it? Are you going to napalm it?

Mr. **McDade**. What do you have in mind?

General **Olmstead**. I think one of the best ways to eradicate is aerial defoliant.

The State Department has a program, and I am being charitable, of modest success with manual eradication where they hire people to pull up or cut the plant. They are planting it faster than you can pull it up.

Mr. **McDade**. I yield to my friend.

Mr. **Livingston**. If in the next week you eradicate those two chief production places for cocaine, wipe them of the face of the map, how long would it take for more production places to crop up?

General **Olmstead**. Almost instantaneously. Somebody asked at a conference we had, "Why don't you bomb Medellin?" If you bomb Medellin, you will just get another town that is going to take it over.

Mr. **McDade**. That is the question that we get when we go home.

General **Olmstead**. I get it too.

Mr. **McDade**. Suppose you had some kind of international commitment expressed through the United Nations or by whatever agency, hopefully not just a unilateral declaration but a declaration against the use of drugs in the world and a notice that such drugs would be eliminated by aerial defoliation. We have the means to detect where it is; if they move from A to B, there is nothing to prevent us from using our assets to find out where it is.

General **Olmstead**. We can find it.

Mr. **McDade**. It tends to be kind of a moving operation. If we had an international agreement, with due regard, notice, et cetera, with protection of human life, would we have the ability to that even as a moving target?

General **Olmstead**. I think we could make an awful good dent in it, but what good would it do?

Mr. **McDade**. If you took out that 80 percent, where would you be?

General **Olmstead**. In a designer drug laboratory here in this country.

Mr. **McDade**. You would still have to work on the demand side?

General **Olmstead**. Yes, sir.

TWO-TIERED APPROACH: SUPPLY AND DEMAND REDUCTION

Mr. **McDade**. If you reduce the supply—you said the price is going down and toxicity up—would that not be an efficacious thing to do in terms of trying to deal with the problem? You have to do everything, don't you?

General OLMSTEAD. You really do. I wouldn't give out the impression that there is one solution.

When the Chairman was down south, when you talk to the people there, they say, "You"—the North Americans—"have the problem." Their concern is to keep the campesino friendly. The bunch in the Huallaga Valley are a bunch of bandits. If they tear up the corps the campesinos have, they are afraid they will go across the valley and work with the bandits. Cooperating, training the local cops, to show them that we don't like their growing the stuff, then we have to have a second line, which I call the interdiction; that is where the military can play a major part. That is the second or first line of defense providing resources to the cops giving them information and also giving them training. Then and now I think we are getting down to the tough part.

In the homeland, we have got to make demand reduction vital, and you do that by holding the user responsible. I will tell you, the best way to eradicte drugs from being grown any place in the world is to take the market away, and if Johnnie and Janie in Albany, New York, say, "I don't want this junk," the Medellin cartel is going to start selling something else and the campesinos are going to start growing something else.

How do you get Johnnie and Janie to say that? In the 1970s, it was the thing to do socially. It is the type of a problem that society is going to have to turn around, and I am confident enough to think that we can turn it around. I can't turn it around by the 2nd of March, but we can turn it around, and I am confident that we will do that.

We have got to have what I call personal incentives not to take it and some of those are deprivation of liberty. To me it is very upsetting for the third and fourth chances we give people who have been arrested and convicted of drug violations. the use of drugs is a crime. If you are going to get arrested for drunk driving a number of times, they will take your license away. We have to have some punitive thing for citizens who are using drugs.

[CLERK'S NOTE.—Discussion off the record.]

Mr. McDADE. We are really into a societal problem on the demand side, much more so than one simple rabbit out of the hat on interdiction. I don't know if Americans really think about it. They look for a magic wand and you happen to be the lightening rod, saying get the military in and there won't be a problem.

General OLMSTEAD. The military has a key role to play but the American people have to fight drugs.

COMMAND AUTHORITY

Mr. McDADE. You said that you have the necessary assets to do you job; you can get into the chain of command when you need to, get the necessary assets. Is that where you feel you are?

General OLMSTEAD. Yes, sir. Under the existing arrangement. I almost hope this hearing could have been a month from now so I could have given you a more up-to-date situation.

The President said to us in late December that some type of organization similar will have to be arranged.

Mr. McDADE. We might have to chat with you again. This is an ongoing problem and we want to keep abreast of it.

General, thank you very much, and again we thank you for your service to your country.

Thank you, Mr. Chairman.

Mr. MURTHA. Mr. Livingston.

USE OF MILITARY FOR INTERDICTION

Mr. LIVINGSTON. Thank you, Mr. Chairman.

I agree with many of the remarks made by Mr. McDade, and would tell you that I have appreciated hearing you talk for the last few minutes. you have a tough job. I came in today listening to my less-than-favored source of intelligence, the National Public Radio, and I heard the hearing that went on yesterday, and frankly I was a little concerned with some of the posturing that went on in that hearing, because frankly I don't believe that the military is going to turn this thing around. I think it is a terrible problem. It is probably among the worst, if not the worst problem that the country faces today, but I have to be among those who would play devil's advocate.

I notice the role of the military, according to the GAO summary, is authorized to assist law enforcement agencies but not to search for or seize drugs or arrest drug traffickers. I know that there are many in this country who would say, "Well, let's use the military for everything." I think that would be a disastrous decision. I think it would be a terrible thing.

First of all, I don't think that we can afford to divert the majority of our assets that are already dedicated to the military and turn the military's mission primarily to drug interdiction or drug enforcement. You have your mission, and that mission is paramount. It is not going to change because of the drug situation. We can't detract from that mission.

But secondly I have an abiding fear that if we start putting soldiers and sailors out there on the front line, interdicting drug traffickers, that the overwhelming corruption that is already intruding into our law enforcment agencies at an astounding rate throughout America could just bring about the downfall of our military, and I don't think that is an overstatement.

Mr. Chairman, I have a relatively small county, parish, in Louisiana. A physician called me and said, "I want to get an appointment with Bill Bennett and I want to talk to him about the drug problem that is going on down here. The people that are directing the drug traffic in that area could be important officials." I don't want to go into too many specifics, but the fact of the matter is that there is so much money in drugs that no institution is invulnerable from attack, no institution is immune to corruption and diversion from its mission.

So I would really had to see the men and women in uniform have the responsibility to stand up to that type of temptation. I don't think it is possible, and I think that, frankly, the entire country will collapse as a result of it if we put our military too far out in the forefront on this thing. So I hope you will be very cautious.

I sense from your earlier remarks that you probably share my concern?

General OLMSTEAD. I do, sir. As a recruiter, as I used to be, I can tell you we have a high-class force in the armed services right now and I don't think we want to give them that temptation.

I was on a nightwalk with some DEA agents up in New York. One of them handed me a paper sack and said, "I just took this off a dealer," and it was $28,000 in small bills. I think that was probably his annual salary as a New York cop. The temptation must be horrible.

So I acknowledge what you are saying on the temptations out there.

With specific regard to the military, I think we have to always look to two shining axioms about our involvement. One of them is readiness to do what you want us to do to prevent that 150 million casualty war. As much as we want to get involved and as much as we abhor drugs we should not be doing things that detract from our ability to prevent the unthinkable. We have to think about that all the time.

The second thing, I think is the traditional point. None of us would like to see soldiers in for instance El Paso handcuffing citizens. That is typical of Nazi Germany and other countries that we don't admire.

In my mind, two strong axioms are, don't be cops, and remember that we pay you to be in uniform primarily to prevent the unthinkable.

Mr. LIVINGSTON. I have a number of other questions I will submit for the record.

General OLMSTEAD. Sure.

[CLERK'S NOTE.—Questions submitted by Mr. Livingston and the answers thereto follow:]

CUSTOMS AND COAST GUARD ROLES

Question. Describe the level of participation and representation of the Coast Guard, Customs, INS and others in the report submitted to this Committee and the priorities set for spending the funds we appropriate for drug interdiction.

Answer. The DOD report includes: a concept plan for an interoperable communications network that supports command, control, communications, and technical intelligence assets dedicated to drug interdiction; the concept for and status of implementation of an enhanced role for the National Guard in support of drug interdiction and eradication operations conducted under state authority; the concept for and status of implementation of DOD's new lead agency role for detection and monitoring of aerial and maritime transit of illegal drugs into the United States; and a funding plan for these three tasks.

The communications plan was developed in close coordination with the various drug law enforcement agencies through the various drug law enforcement agencies through the Communications Interoperability Working Group of the National Science and Tech-

nology Committee. Technical and analytical support for the Working Group was provided by the Defense Communications Agency. This same Working Group also is charged with implementation oversight of the National Telecommunications Master Plan for Drug Enforcement.

The state governors are coordinating with federal, state and local drug law enforcement agencies as they develop their plans. Further, all plans will be forwarded to the Attorney General for review to ensure their adequacy prior to SecDef approval and funding decisions.

DOD efforts to implement its drug detection and monitoring mission and its lead agency role in this area initially required alignment of internal DOD roles and responsibilities. The DOD drug detection and monitoring effort is being designed to support the existing national drug strategy. To ensure drug law enforcement agencies were involved in the process, DOD requested assignment of full-time liaison officers from Customs and Coast Guard to work with SecDef's staff; they have been in place since December. Law enforcement liaison personnel also are assigned to the Director of Operations, of the Joint Staff. Further the National Drug Policy Board's Interdiction Committee was kept apprised through periodic status briefings during monthly meetings, and the entire report was reviewed by the National Drug Policy Board and the drug law enforcement agencies responsible for interdiction before submission to the Congress.

FUNDING FOR COAST GUARD AND CUSTOMS

Question. Specifically, what are the top priorities Coast Guard and Customs have submitted to address their needs regarding fiscal year 1989 funding and for future funding requests?

Answer. These submitted requirements represent expenditure of DOD appropriations for specific use by other agencies or departments which is not provided for by law.

AEROSTATS

Question. This subcommittee concurred with the Authorization Committees on the importance of the aerostat radar surveillance systems as effective assets to stop the flow of illegal narcotics along our southern and gulf coast borders. The land-based aerostat is needed by Customs to fill the remaining gaps along the gulf coast and Coast Guard-operated sea-based aerostats. Do you and the Department consider the land-based and sea-based aerostats part of an effective strategy against drug traffickers?

Answer. The use of aerostats must be addressed in an overall strategy to develop an optimal sensor mix.

Question. What specific assets does the Department plan to deploy in fiscal year 1989 along the gulf coast border?

Answer. This is currently addressed within the framework of providing detection and monitoring.

Question. Does the Department have plans to request funding for Coast Guard assets such as sea-based aerostats or patrol craft?

Answer. It is inappropriate for DOD to request funds for Coast Guard assets. That is a function of the Department of Transportation.

Question. I understand when you testified before the House Armed Services Committee yesterday, cost estimates for land-based and sea-based aerostats were provided. What are the Department's cost estimates for these systems and how were they determined?

Answer. The estimate for acquisition of a land-based aerostat is approximately $13 million. Site costs may vary depending on location. The cost for a sea-based aerostate is approximately $22 million—$15 million for aerostat and $7 million for a semisubmersible. These estimates are based on previous acquisition experience and current proposals.

Question. I have been told in the past that approximate costs for the land-based aerostat are $11 to $12 million per system and the sea-based per system costs range from a low of $8.5 million to $10.5 million. How does these costs compare with the Department's estimates?

Answer. These estimates appear low for land-based aerostats, and about the same for sea-based aerostats.

EQUIPMENT PROCUREMENT FOR OTHER AGENCIES

Question. In terms of actually buying or procuring hardware, will the Department be the "buyer" for Customs, the Coast Guard and other agencies?

Answer. No.

[Clerk's note.—End of questions submitted by Mr. Livingston.]

DRUG ENFORCEMENT/ERADICATION

Mr. Murtha. Mr. McDade.

Mr. McDade. If I might follow up, because I agree with those sentiments. We see pictures and read comments about DEA agents carrying assault rifles down in Bolivia and other places, and apparently—I don't really have express knowledge, so it is all appearances—that they are moving into the problem in a training mode. They are also exposed. There was commentary about how deeply they are into it.

I would like to ask two things, if you know, about how deeply are they involved. The first question is, is it your judgment that we should for example, remove the military from the off-shore role and have some agency like DEA to be the lead force for use in South America or wherever. Trained by your people, if necessary, in jungle warfare, if necessary with automatic weapons, in the front line rather than having fellows in uniform, wearing the uniform of the Marines, the Army or the Navy or whatever involved in it.

General Olmstead. That is the currrent arrangement, sir.

Mr. McDade. Do your support doing it that way?

General Olmstead. The way we are doing it now, yes, sir. I don't think we should be doing anything down there unless your are invited by the host country.

Mr. McDade. When you say "we," who do you mean, the military?

General Olmstead. We, the United States. Unless you are ready to declare war, you have to be invited by the host country. It has to be coordinated by the ambassador. They have narcotic administration units responsible to the ambassador. He is the guy who knows where all the DEA agents are that are in Bolivia.

Unfortunately, everybody is wearing camouflage clothes including the DEA agents in Bolivia. They work with the Umpara and they work and train with them, and they go on the raids with them to supervise the raids.

CROP SUBSTITUTION

Mr. McDade. We have been into, over the years, crop substitution; we have tried to subsidize the country to get into a different crop than poppy. If we had a perfect world, do you think the people of Bolivia would agree to eradicate the poppy and attempt to eliminate that system by invitation from a host country?

General Olmstead. I am not sure you have to come up with a crop substitution. I think if you can make the market so unprofitable that they will find corn or something else for themselves. They were toying with macadamia nuts in Bolivia. I say if you shut off the demand, he is going to find something else to grow.

Mr. McDade. But in the shorter term, to make it more difficult for that guy to corrupt the policeman or to buy a town in Colombia, it would seem we need to get at the infrastructure located outside this country. We now have the DEA doing some of that by invitation only, but talking about two areas where 80 percent of the supply comes from, if you could do something about it by invitation with due regard for the peasant and his need to make a living, it seems to me you would make an impact.

General Olmstead. The Department of State has made attempts to go to the alternate crop situation, but I don't know the details.

Mr. McDade. You don't get involved in that?

General Olmstead. No, sir. I am just aware that they have tried to do it.

Mr. McDade. Thank you.

DRUG USE IN SOUTH AMERICA

Mr. Murtha. General, do they use these drugs in Colombia, Peru and Bolivia?

General Olmstead. Good point. Maybe we are going to find problems in Colombia and Bolivia because their people are beginning to use more drugs. When I said they always say it is your problem, I think they will look back and begin to think it is their problem too pretty soon.

My Spanish is horrible, but whatever they call "crack" being sold in Bogota and they are finding problems there with that too.

So they are getting the social backlash of this thing too, Mr. Chairman, not to the degree that we have.

LEGALIZATION ISSUES

Mr. MURTHA. They could buy it at a cheaper price there. So the people that advocate making it legal, that doesn't solve the problem of making the drugs legal?

General OLMSTEAD. Legalization is not going to solve the problem at all. Legalization didn't do away with drunkenness and murder on the highway by drunken drivers.

I think the worst thing is to put crack in Giant and Safeway food stores.

USE OF SPECIAL FORCES

Mr. MURTHA. Do you use special forces for any kind of operation?

General OLMSTEAD. I take exception to the word "operation." We use them for training, mobile training teams, particularly in this case CINCSOUTH. Under the authority of the Military Assistance Programs, we can put these training teams down there not in an operational mode, but in a training mode. We had a training site in Bolivia and we had a young special forces captain and a team of about ten people there training the Umpara on how to handle weapons. Strictly a training mode, not an operational mode.

Mr. MURTHA. According to staff, there was a recent news report indicating the new administration's plan to use Special Operations Forces on new drug eradication missions in South America. Are you aware of that?

General OLMSTEAD. Shockingly. I was watching NBC and they said that 300 super commandos were going to go down to South America. My phone started ringing immediately. I did as much tracking down as I could. Nobody in the Department of Defense will admit to me that they ever even thought about anything like that.

Mr. MURTHA. Mr. Miller.

USE OF NATIONAL GUARD

Mr. MILLER. Thank you, Mr. Chairman.

General, you make a statement that a minimum of $40 million was appropriated for the DOD to allocate to support of this enhanced role of stopping drugs, and the National Guard Bureau apparently was involved in this. To quote from your statement, "To date we have received responses from all states, territories and the District of Columbia; 51 plans have been received and two states and Guam do not plan to use the appropriations."

Could you tell us why states would cop out and Guam would cop out if they have an opportunity to use appropriations in order to hold down the drugs?

General OLMSTEAD. I can't tell you why the governor didn't want to participate. Vermont and West Virginia are the two States that decided not to play. We took the ones that came in and asked for money and we prioritized them based upon help from the law enforcement agencies, principally from the Drug Enforcement Administration. We said, "We will have $40 million available, Mr. Governor, for law enforcement activities by National Guard under your state title," and they all came back. We put the top 13 as priority 1, most of the border states, and we are ready to give them money. We will give them money as soon as the Congress approves our plan which we sent over here last week.

The plan the Congress had a 60-day waiting period, so I am waiting for the clock to tick down. Any way we can get that clock going faster, I would appreciate that.

Mr. **MILLER**. Did any of them give a reason as to why they did not want to participate?

General **OLMSTEAD**. Good point. There are many things that all the states, including Vermont and West Virginia, have been doing incidental to training. This is above the training missions that they are doing. They just said that they were going to do what they wanted to do incidental to training.

Examples of this, Mr. Congressman, are flight hours in support of the state police, interdiction on the bridge down at El Paso; our guardsmen will be down there.

USE OF AWACS FOR INTERDICTION

Mr. **MILLER**. It seems to me that that should be made public that there are two states and Guam who are not interested in doing something to take care of the problem. I think maybe we should find a way to make that public.

In another area, the military had the Airborne Warning and Control System or AWACS, that they were using at one time. Are they still being used?

General **OLMSTEAD**. Yes, We have been using AWACS. Those were in the 28,000 hours that I described to you in my opening statement. AWACS will be used in the new detection and monitoring mode. AWACS is an awful expensive plane to put up there looking for Cessnas. My latest figure, is just a little under $10,000 an hour to fly that bird.

I would hope that our operational experts can come up with more efficient ways to give us the same coverage than putting AWACS up all the time.

Mr. **MILLER**. But the AWACS are up their training; why not use that particular area for official training?

General **OLMSTEAD**. We do. We call that equivalent training. Last year we did that to a tune of almost $98 million where the Air Force and the Navy as principal services did things just as you describe and they took it out of hide.

DRUG PRODUCTION IN THE UNITED STATES

Mr. **MILLER**. I had one other question because you had mentioned, as I recall, that 80 percent of the marijuana that is used in the United States is grown in the United States; is that correct?

General **OLMSTEAD**. No, sir, 25 to 30 percent.

Mr. **MILLER**. Twenty-five to 30 percent?

General **OLMSTEAD**. Yes, sir.

Mr. **MILLER**. And we have not been able to solve that problem. That isn't a military problem as such, but you certainly are meeting with the people that are involved. It seems to me that, not only in Colombia and Peru, but also in the United States, we might overfly by commercial airline and have a camera rolling to pick up where this is grown?

I remember many years ago that I was flying with the university and we had a Sperry bomb site attached to the bottom of the line. I recall looking right down the smokestack of a utility company.

If the commercial planes have an altitude of only five miles or so, we should be able to pick up where this is grown, especially in the high-risk area, and you spoke of Texas. Commercial airlines are covering an awful lot of territory and it seems it could be another weapon; it is another item that we could use in order to find, especially in the United States, where the marijuana would be grown.

General **Olmstead**. I think that is an awful good suggestion, sir, and I will pass it on to the people that are domestically trying to find those things.

I have seen the infrared photography, which is very helpful. I know that the National Park Service and the U.S. Forest Service are employing means to use the infrared to define what kind of foliage is down there.

Mr. **Miller**. I am thinking of taking pictures as they are going. It isn't that expensive; it isn't that much weight to have to attach to a plane to be able to pick it up as they roll.

Thank you.

Mr. **Murtha**. Mr. Sabo.

INTERDICTION OF DRUG MONEY

Mr. **Sabo**. How much money do we spend in trying to interdict the money versus the drugs?

General **Olmstead**. I don't know, sir. I think the appropriate answer would have to come from the Department of the Treasury. I know that they have a task force on money laundering.

I am probably remiss in not knowing more about that, but I know that is the biggest problem of the cocaine dealers to ship—the money is bigger in size than the cocaine.

Mr. **Murtha**. They can't use it or get it out of the country?

General **Olmstead**. And move the money.

Mr. **Murtha**. So they move it out of the country just like they move the drugs in?

General **Olmstead**. It is easier to bring in a two-kilo packet like this, $28,000, than it is to move $28,000 of $20 bills.

Mr. **Murtha**. Takes up more room.

General **Olmstead**. Treasury has a task force just on trying to find ways to thwart drug money laundering. I can get an answer for you.

Mr. **Sabo**. If you could, I would appreciate it.

It seems to me that strikes at the core of the products—the drugs we get as a minute impact on the products.

[The information follows:]

The Treasury Department has been in contact with the Subcommittee in response to Mr. Sabo's request.

Mr. **Sabo**. I am concerned in terms of our foreign intelligence work that is related to the sending of drugs. Are they also involved in trying to sort out how the money comes back?

General **Olmstead**. I don't want to say yes and not be absolutely sure.

Mr. **Murtha**. I was thinking the banking system. They never even thought about drug merchants trying to send money out, say, in containers. Has there been any evidence how the money is sent out of the country, or have you tried to interdict it at all?

General **Olmstead**. They have, yes, sir. We have evidence of buying banks, so that they can use it. But instead of me giving you hearsay, Mr. Chairman, this is not my——

Mr. **Murtha**. I understand money wouldn't be moved if it is the banking system, but it seems to me it would be if you are really talking about physically moving the money out of the country. Maybe there is a very small proportion that is moved out——

General **Olmstead**. By courier?

Mr. **Murtha**. Yes.

General **Olmstead**. I am getting out of my MOS on this one.

Mr. **Murtha**. So you are not involved at all in any money going out of the country?

General **Olmstead**. No.

RELATIONSHIP WITH DIRECTOR OF DRUG CONTROL POLICY

Mr. **Murtha**. Mr. Livingston.

Mr. **Livingston**. Have you already told our Subcommittee about your interrelationship with the drug czar, Bill Bennett? Are you looking forward to working with him and do you know how you are going to interact?

General **Olmstead**. I definitely look forward to working with him. He is keeping his counsel very close right now.

Last week I met with his staff for about an hour and a half, about eight of his young staffers. We sat around like this and they just asked me questions and I chatted with them. They know who we are.

Last Friday I provided them with a very smart, young Army colonel as a liaison to Mr. Bennett's staff. Mr. Bennett is developing his organization, but I don't think any of us will know much about it until after the 2nd of March.

Mr. **Livingston**. Thank you.

Mr. **Murtha**. Thank you very much, General. We appreciate your work and testimony. We will have questions for the record, and Mr. Hefner has some also.

The committee will adjourn until Tuesday at 10:00.

[Clerk's note.—Questions submitted by Mr. Hefner and the answers thereto follow:]

TYPES OF SURVEILLANCE

Question. General, in your statement you referred to over 28,000 hours of aerial surveillance flown and over 2,000 ship days provided in fiscal year 1988 as a part of the drug interdiction effort. How does this work, is it something like an AWACS or an E-2C looking for potential targets followed by closer inspection by other aircraft or ships? How much of this effort is radar surveillance? What forms of radar surveillance are used? For the record please provide an estimate of the cost and effectiveness of the different types of radar surveillance techniques you employ. DARPA has been studying the feasibility of an airship and a lighter-than-air hybrid craft which would mount a sophisticated radar. It is the Committee's understanding that this could provide 24-hour coverage for up to 2 weeks without resupply. This could be done at a fraction of the operating cost of fixed-wing assets. How beneficial would something like this be to your operations? How soon would you like to have this available to your program?

Answer. Yes. Typically, DOD aircraft—AWACS, E-2Cs, et cetera.—patrol an area in which law enforcement agencies have reason to believe drug smuggling is taking place. Once a "drug smuggler profile" target is detected, law enforcement is notified of its position and track for possible interdiction efforts.

Radar surveillance is, by far, the dominant method employed by DOD. All types of radars are used including airborne early warning, land-based, shipboard, and aerostats.

We do not have reliable data on the effectiveness of types of radar in use against aerial drug smugglers. As our military forces increase their participation in detection and monitoring, we will look for methods of quantifying our effectiveness. Until then, the drug law enforcement agencies should provide any data they have available.

We are aware of both of these DARPA technology initiatives. As you have noted, they appear to be very promising approaches. However, we feel additional proof of concept effort is needed before programmatic and operational decisions would be appropriate. Your interest and support as we proceed in this effort would be appreciated.

[CLERK'S NOTE.—End of questions submitted by Mr. Hefner. Questions submitted for the record and the answers thereto follow:]

THE PROPER ROLE OF THE MILITARY IN DRUG INTERDICTION

Question. In April of 1988, the GAO released a report on the increased use of military personnel in drug interdiction. The GAO summed up their report by stating that the effectiveness of using the military for drug interdiction was difficult to determine due to the inability to measure success. Additionally, the GAO stated that neither DOD nor law enforcement officials supported any significant change to DOD's role. What is your opinion on the proper use of military personnel and assets for drug interdiction? Do you believe that DOD's current role is beyond what the military should be providing? Should DOD's role be expanded or reduced?

Answer. The primary role of the Department of Defense is to protect and defend this country from armed aggression. Nothing must stand in the way of our readiness or our preparedness to perform this task. Our Armed Forces should not become a police force, nor can we degrade readiness by diverting badly needed resources from their assigned missions. We should not view use of DOD resources as a substitute for rational funding of civilian law enforcement activities at the federal, state, and local levels as well as the critical education necessary to reduce the demand for illicit substances here in our country. We do, however, have skills and resources that can be devoted to the problem: First, operational planning assistance to the drug law enforcement agencies; second, expanded training for drug law enforcement personnel in our military schools; third, staging additional military exercises near our border areas or in other areas of high drug trafficking; fourth, providing excess equipment to the drug law enforcement agencies; fifth, providing training to foreign military and police forces in drug interdiction operations; and sixth, temporary loan of noncritical items of equipment to the drug law enforcement agencies.

It is too soon to tell what the operational and readiness impacts of the new missions will be. We need some experience in actually fulfilling these missions. After 1 year of experience, I should be able to give you an assessment in this area.

Without the experience I alluded to above, I cannot give you a definitive answer on this point. I would emphasize, however, that any additional missions assigned to the DOD should come with budgetary provisions for the additional personnel, equipment, and funding to ensure that our primary mission is not degraded.

USE OF MILITARY FORCES

Question. There have been a series of U.S. military missions in South America which provided teams of U.S. soldiers to destroy both coca leaf crops and drug processing plants. What have been the recent missions? How do you determine the success of such a mission? There was a recent news report indicating that the new administration is planning to use Special Operations Forces on a new drug eradication mission in South America. Have you heard of this operation? If so, what is your role in developing and monitoring this effort? If you have not heard of this operation, why not?

Answer. Let me begin my answer by saying that the U.S. government lead agency for drug suppression activities overseas is Department of State's (DOS) Bureau of International Narcotics Matters (INM). DOD's mission thus far has been to provide support requested by the U.S. ambassador, approved by INM, and coordinated with the host country.

There have been no U.S. military missions in which U.S. Forces have destroyed crops or laboratories. In July-October 1986, six U.S. military UH-60 (Blackhawk) helicopters and approximately 180 U.S. military personnel provided transportation for Bolivian drug police (UMOPAR) enroute to destroy drug laboratories; however, our personnel did not dismount the helicopters in the area of the laboratories nor did they engage in any other way in operations. This operation was named Blast Furnace.

Since then, U.S. military mobile training teams have conducted basic military training to members of drug suppression units in Bolivia, Colombia, Ecuador, Costa Rica, and the Bahamas. In each case the teams only provided training and did not participate in actual operations. This is in consonance with current DOD policy that while we may provide training and planning assistance, our personnel will not engage in law enforcement activities either inside or outside the United States.

Additionally, we have provided to the DOS INM, 26 UH-1H "HUEY" helicopters for use in drug suppression activities outside the United States. In some instances, we have had trainers accompany the helicopters. Again, however, DOD direction ensures that the trainers do not participate in actual operations.

As to determining the success of such a mission, I would have to defer you to INM for the answer to that question since they are responsible for making those determinations; however, during Blast Furnace, we drove the price of coca leaves below the cost of their production. I would view that as a measure of success.

I have read the news reports; but I was not part of the reported discussions, nor was anyone I know of from the Department of Defense (DOD). I can repeat that, up to this point, the previous Secretaries of Defense have been opposed to using U.S. military personnel to conduct operations in foreign countries.

INVOLVEMENT OF OTHER FEDERAL AGENCIES

Question. A new development in the "drug war" is the increased involvement of other federal agencies such as the Drug Enforcement Administration (DEA), in the drug eradication effort. We see pictures of DEA agents carrying AR-15 assault rifles through the jungles of Bolivia, waging guerrilla warfare in their search for drug traffickers. What is your opinion on the increased use of DEA agents in a more military fashion? Do these agents receive training from military sources? If so, what kinds of training do they receive?

Answer. Again, I should refer you to INM for comment as they are the lead agency. I think you should understand that the coca effort is mainly in Central and South America where the local populations hold very hostile views toward the employment of foreign military units in their territory. These are sovereign nations; and for the U.S. to unilaterally move forces into those countries, without their requesting that type assistance, would be viewed in some quarters as a hostile act. On the other hand, the same animosity for civilian policemen does not exist; therefore representatives of INM and DEA can provide assistance to local police forces without the same possible consequences that could result from using members of the military.

We do provide a variety of training ranging from Spanish language training, to basic marksmanship, jungle survival training, medical aid training, and riverine operations training. We also provide assistance in preparing basic plans for adaptation to specific circumstances.

INVOLVEMENT OF SOUTH AMERICAN COUNTRIES

Question. The United States has invested considerable effort in many South American countries to eradicate the source of drugs, especially cocaine. What are South American countries doing to stop the flow of drugs from their land? What pressure does the United States need to put on these countries to increase their efforts to control the farming and processing of illegal drugs? Are there other countries involved with drug eradication efforts in South America?

Answer. Since eradication is an INM program and the remaining questions deal with foreign policy, I would refer you to State for those answers. I do know that virtually every nation has some programs to reduce drug traffic. Those programs must exist within the resources available, the political situation, and preservation of the environment. For more on that, I would prefer that INM respond.

DOD RELATIONSHIP WITH DRUG CZAR

Question. President Bush has chosen William Bennett to head a Presidential Task Force on Drug Abuse. The exact role of this new Task Force has not been determined, but it is anticipated that it will look at coordinating drug interdiction efforts. What will be your role in this new Task Force? Have you had an opportunity to meet with William Bennett, the so called "Drug Czar"?

Answer. Upon confirmation by the Senate, Mr. Bennett will assume the statutorily mandated role of Director, National Drug Control Policy Office, in which he will have broad responsibility for coordinating the Federal government's approach to both supply reduction and demand reduction activities in the drug abuse area. The Department of Defense (DOD) fully intends to cooperate with his important efforts, as we have the efforts of the predecessor organizations, the National Drug Policy Board and the National Narcotics Border Interdiction System. We are of the firm view that only through the highest levels of interagency cooperation can meaningful progress be made in our efforts to control drug abuse. The exact workings of Mr. Bennett's new office have yet to be determined. The legislation establishing it is sufficiently broad to allow many possible approaches by Mr. Bennett to his formidable task. However he decides to proceed, he will have the Department of Defense's full support.

I have not yet had an opportunity to meet with Mr. Bennett, but both my staff and I have spent considerable time with Mr. Bennett's staff, briefing them on the DOD role in drug interdiction support. Additionally, I have assigned an Army Colonel from my staff to work full-time with Mr. Bennett's staff in an effort to maximize the greatest possible cooperation between our two offices. He began work in Mr. Bennett's organization in mid-February and will continue there indefinitely.

USE OF INTELLIGENCE INFORMATION FOR DRUG INTERDICTION

Question. DOD is required to share intelligence information with other federal agencies if it will enhance drug interdiction efforts. This is of great concern due to the sensitivity of this information and its ultimate use. What is DOD doing to ensure that intelligence is not compromised? Are you confident that other federal agencies are treating intelligence data with care and caution?

Answer. Work is being done between the National foreign intelligence community and the drug intelligence community to resolve these issues.

DRUG INTERDICTION ASSETS

Question. During the past few years, the Department has purchased drug interdiction aircraft and other items for the Customs Service and the Coast Guard. With DOD's new role as director of all aerial and maritime support, should those assets remain with the other agencies, or should they be returned to DOD? Since fiscal year 1986, what equipment has been purchased by DOD for other federal agencies for drug interdiction efforts?

Answer. Those aircraft and other items previously purchased for the Customs Service and Coast Guard should remain under their control. DOD, as the lead agency for aerial and maritime surveillance and monitoring, does not plan or desire to take control of all Federal surveillance and monitoring equipment assets. Rather, our plan is to coordinate Federal agency efforts using existing assets into a comprehensive detection and monitoring program which will include additional DOD surveillance and monitoring assets as they become available.

The fiscal year 1987 Omnibus Drug Act contained $71.386 million for the procurement of aerostats to be operated by the Customs Service in peacetime. In addition, the Act contained $18 million for the procurement of four UH-60 Blackhawk helicopters for the Customs Service. Further, $183 million was earmarked for the procurement of four E-2C aircraft to enable the U.S. Navy to loan two E-2C aircraft to the Customs Service and two to the Coast Guard. All this money has been obligated.

AERIAL SURVEILLANCE

Question. It is our understanding that since DOD has become involved with aerial surveillance, shipments of illegal drugs by aircraft have diminished. Is this true? If so, what is currently the most-used method of shipment? The lack of personnel resources in other federal agencies has meant a limited ability to check any significant number of ocean-going vessels coming into port. What can be done to increase inspections of ocean-going vessels? What can be done to increase inspections at our land borders?

Answer. We have no reliable method of determining whether drug smuggling by air has decreased. We have indications that where surveillance has increased, the number of seizures from aircraft has decreased, but that is not to say that the amount crossing into the U.S. has decreased accordingly. We suspect that what has happened is simply a shift of smuggling routes to those areas not covered by surveillance assets. As is the case with all methods of illegal activities, unless and until law enforcement personnel are able to stop and search every person, plane, truck, automobile, and ship, we will be unable to assess accurately the amount of illegal drugs entering this country.

Lacking some new technological development, the inspection of ocean-going vessels will remain a labor-intensive, time-consuming effort. An increase in the number of inspections will necessitate an increase in the number of inspectors assigned to law enforcement agencies charged with this responsibility.

The same situation exists at our land borders; inspections are time consuming and labor intensive. An increase in the number of inspectors assigned to law enforcement agencies is, at present, the only way I know which would result in an increased number of inspections. As you may know, last fall we tested a concept using the National Guard to assist Customs inspectors at border inspections points. We believe that the test was successful and we look forward to more of that type of operation in the future.

LEGISLATIVE REQUIREMENTS

Question. The Department submitted a report to Congress in response to reporting requirements in both the 1989 Defense Authorization Act and the 1989 Defense Appropriations Act. A section of this report outlines legislative requirements for the Department to continue its drug interdiction mission. First, immediate relief from the Authorization prohibition on the use of any funds until 60 days after the submission of this report. This includes funds set aside for the National Guard drug interdiction mission; and second, the need for more flexibility over the funds appropriated for drug interdiction in the fiscal year 1989 Defense Appropriations Act. Would you please give us more information on these two requests? Do you plan to submit legislation to correct these items and if so, when will you be submitting this legislation? Do you have any plans to request legislation to expand DOD's role in drug interdiction?

Answer. These two requests were formulated on the need to release some moneys immediately for startup obligations and to take advantage of early opportunities for employing the National Guard. Also, implementation of a new mission requires some equipment acquisition and testing of new equipment which was not provided for in the legislation which appropriated all funds as operations and military personnel. The need for legislative relief has been superseded by internal policy determinations.

PURCHASE OF COMMUNICATIONS EQUIPMENT

Question. Your report of February 15, 1989 contains a concept plan for integrating command, control, communications, and technical intelligence assets dedicated to drug interdiction into an effective communications network. This concept plan, which is still going through refinement, will call for a tremendous investment in C^3 equipment for DOD and other federal agencies. Has the funding for any additional equipment you may need been included in DOD's fiscal year 1990 budget? Do you know if funding has been included in the fiscal year 1990 budgets for other federal agencies? Do you anticipate that the other federal agencies will fully fund their equipment requirements, or is it possible that DOD will purchase the equipment and give it to them as we have done with other equipment?

Answer. Because final resolution of equipment needed in fiscal year 1989 has not been completed, it is not possible to identify fiscal year 1990 requirements. Other departments and agencies should have funding in their fiscal year 1990 budgets as their ongoing communications plans.

Full funding by federal agencies is not clear at this time. DOD might be required to loan equipment as gap fillers.

ROLE OF THE NATIONAL GUARD

Question. There has been increasing use of National Guard forces to assist in drug interdiction efforts. What has been the role of the National Guard?

Answer. In the past, the National Guard has provided two kinds of drug enforcement support to law enforcement agencies: equipment loans and specific support operations incidental to training—as a by-product of training—or in state active duty. Aerial observation of marijuana fields, aerial photography and transport are examples of support missions conducted incidental to training.

Question. What changes, if any, are planned for the National Guard?

Answer. Under the 1989 Defense Authorization and Appropriations Acts, the National Guard will be able to take a much more active role in drug enforcement support to law enforcement agencies. That support can be expanded with the provision of federal funds to the Governors, to supplement funding from state legislatures. These funds support operations in a state status above/beyond normal combat training. Support operations now being planned by many states, in coordination with supported law enforcement agencies, include cargo searches at border entry points, aerial searches for cultivated marijuana or isolated airstrips, aerial transportation of law officers, transportation of seized property or contraband, aerial photo reconnaissance and photo analysis, radar monitoring, aerial patrol of borders and coastal waterways, and ground surveillance. Very few of these operations could have been undertaken in the past due to the requirement that all support provided be incidental to training.

Question. Do the governors have input into the use of these troops for drug interdiction?

Answer. The Governors, in most cases through their designated representatives, the Adjutants General, are the decision makers on how National Guard troops are used for drug interdiction. The only limitations imposed by the 1989 Defense Authorization Act are that the support must be conducted under command and control of state authorities, and must be in addition to the monthly weekend drills and two-week annual training. The National Guard Bureau has provided detailed briefings on planning procedures to many governors and has coordinated directly with the appropriate staff in the National Guard of each State.

[CLERK'S NOTE.—End of questions submitted for the record.]

TUESDAY, MARCH 8, 1989.

MEDICAL PROGRAMS—DEPARTMENT OF DEFENSE

WITNESS

WILLIAM MAYER, M.D., ASSISTANT SECRETARY OF DEFENSE HEALTH AFFAIRS

INTRODUCTION

Mr. MURTHA. The committee will come to order. We welcome Dr. Mayer, the Assistant Secretary of Defense for Health Affairs, for his last appearance before the committee. When we get a Secretary of Defense, I assume, Dr. Mayer, you will be leaving. In our conversations in the last few weeks we have talked about the problem with CHAMPUS and we would like you to address that, and also discuss cost sharing. Please address those two things, either in your opening statement or afterward. We will put your prepared statement in the record and ask you to summarize it and then we will ask questions.

The other thing we believe that you need to address, particularly with your experience in the job, is policy deficiencies. The policy problems that you have in the DOD medical services. We think there ought to be more centralized control so some decisions can be made quickly. If you agree with that or if you don't, we wish you would address any policy deficiencies that you see.

SUMMARY STATEMENT OF DR. MAYER

Dr. MAYER. Thank you very much, Mr. Murtha.

I think that I would be remiss if I didn't on behalf of my very valued colleagues who work in Health Affairs thank you personally for your support of the pay raise proposal. I think that was very courageous and very honest. Thank you.

I have a 2-hour statement which I will run through very quickly. Then I would be very happy to discuss the points that you mention because I think they are so important. Actually, that wasn't facetious when I expressed gratitude for your support for that particular movement in the Congress, but we really owe this committee a tremendous vote of thanks for the kind of support we have consistently had as we have struggled to do things that clearly had to be done to make the military health care system a rational system. I am constantly surprised that it is a $13 billion a year enterprise that is going up, although it hasn't gone up nearly as much as it was a few years ago. We have pretty well capped the rate of growth.

The size of our beneficiary population which approaches 10 million people makes it a complicated system to administer. In connection with the last comment that you made about policy and centralization, I should lay the ground work by saying that my office does contain in its charter and in title X more directive authority than any other Assistant Secretary has, but the issue of how much is enough and whether this is really effective or whether it is just a step in the right direction remains to be looked at very carefully.

MEDICAL READINESS

I do have good news to report. I don't want to dwell on it but you recall that a few years ago we were disastrously unready to perform our primary mission, which is the medical support of people in war. I can report that we have seen tremendous improvements both in the materiel that we need to go to war and in the personnel required.

For example, we are now at 75 percent of our medical equipment needed for a general war. As opposed to the 10 or 15 percent when the Reagan Administration started. This means that the equipment is either in our hands or has been ordered and is being assembled so it is not waiting for some future activity.

QUALITY IN HEALTH CARE

We also faced for a number of years, very serious questions about the quality of military health care. They were put forth mainly in the press with sometimes really horrifying and sometimes quite true anecdotal reports of medical disasters.

But the quality assurance in the military health care system is unmatched anywhere in American medicine and indeed anywhere in the world. In order to validate that some years ago I began a program of extemporary review by civilian experts examining more than 50 indicators of care in particularly dangerous and difficult kinds of cases. As reported in a recent article in the Journal of the American Medical Association and commented on in an editorial in the Journal, less than 1 percent, even of those difficult and dangerous cases, failed to meet the very highest standards imposed in a set of standards that we obtained by working with the American College of Surgeons, and the American College of Physicians. There isn't anything to compare to that.

The civilian community doesn't evaluate itself this way. But it is clearly an indication of excellence in medical care that in spite of our administrative difficulties and our shortages and how much we are going to pay the doctors and whether they are all going to leave the service and all the other kinds of problems, including two that you mentioned, sharing with the VA and the CHAMPUS program, in spite of that, the quality of care in medical treatment facilities remains the highest that one can get anywhere. We have the lowest incidence of untoward medical events.

Just one word about the fact that you can't be medically ready just by having all the equipment on hand. You have got to have the people. We now have 100 additional medical specialists in those critically short areas that we identified in 1982. Overall, there has been an 11-percent growth since that year. In the reserve forces we have shown a 57-percent increase in the number of physicians and a 63-percent increase in the nurses serving in the ready reserve.

We are finally functioning on the basis of a real planning document, a worldwide medical master plan. I have already mentioned the civilian peer review. With your permission, I would like to introduce in the record of this hearing a copy of the editorial from the Journal.

Mr. MURTHA. Without objection, so ordered.

[CLERK'S NOTE.—A copy of The Journal article follows:]

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Special Communication

A First Report of the Department of Defense External Civilian Peer Review of Medical Care

William Mayer, MD; J. Jarrett Clinton, MD; David Newhall III

In mid-1985, the Department of Defense announced a plan for an external civilian peer review of selected medical and surgical cases in military hospitals. A medical advisory panel consisting of practicing clinical representatives from nine medical specialty societies helped develop written criteria and standards for specific surgical and medical cases. Abstracted data were compared with computer algorithms created from the medical standards and criteria. Those cases failing the review criteria were reviewed by a physician peer review panel. The sampled medical records represented approximately 7% to 8% of the total hospital discharges. Less than 1% of the overall sampled cases were in noncompliance with stated standards. The highest rate of noncompliance was for cases of diabetic ketoacidosis. The most frequent noncompliance event was hysterectomy. Although comparisons are not available, the quality of care among selected cases, as measured by compliance with civilian physician specialty group–endorsed standards, appeared high.

(*JAMA* 1988;260:2690-2693)

IN EARLY 1986, the Department of Defense initiated a bold activity—the review, by civilian physicians external to the military, of the quality of medical care in the hospitals of the US Army, US Navy, and US Air Force. The purpose of this article is to describe the process of this review, the experiences to date, and the lessons learned. This information should prove useful to health care systems considering or implementing peer review programs.

DESCRIPTION OF THE MILITARY HEALTH CARE SYSTEM

The health care services available to approximately 9 million Department of Defense beneficiaries (active duty personnel, dependents of active duty personnel, retired military personnel, and their dependents) are provided in 168 hospitals plus approximately 500 freestanding clinics. These facilities provide more than 900 000 inpatient admissions and some 47 million ambulatory medical and dental visits annually. Table 1 displays the military hospitals by location and current number of operating beds. On the average these hospitals have an occupancy rate of 80% and a length of stay of 5.4 days. Twenty-three percent are located outside the United States in 16 different countries. Of the total number of hospitals, 15 (9%) are medical centers with extensive graduate medical education programs.

RATIONALE FOR THE EXTERNAL PEER REVIEW PROGRAM

In the early 1980s, criticism of the quality of medical care in military hospitals led to substantial initiatives in medical care quality assurance. Among these Department of Defense initiatives were a validation and review of the credentials of physicians; development of criteria for granting clinical privileges; establishment of a licensing requirement for physicians, nurses, dentists, and seven other health care–provider professional groups; and the development of hospital-based, computer-assisted quality assurance programs that focused on the monitoring and evaluation of both medical events and health care providers.

Despite these quality assurance activities and other measures intended to enhance the quality of medical care, public and congressional criticism of medical care based on anecdotal events continued. Therefore, in mid-1985 the Department of Defense announced a plan for a civilian external peer review of selected medical and surgical cases. The intent was to review approximately 10% of the more than 900 000 hospitalizations within military hospitals per year. The program was planned to complement the internal hospital-based quality assurance programs by documenting the quality of care and identifying medical cases, hospitals, or health care providers where corrective interventions appeared warranted.

A secondary expectation of this project was that measurement against defined medical and surgical standards and criteria would provide useful comparisons of the quality of military medical care with similar evaluations in the civilian medical sector.

DESCRIPTION OF THE CURRENT PROGRAM

In January 1986, the Department of Defense awarded a contract for civilian peer review of military medical care. The clinical categories proposed for review were identified by the Department of Defense and are listed in Table 2. The percentages of cases selected were determined subjectively to be reasonably representative of the total cases and collectively represent about 15% of all hospitalizations in military hospitals. Reviews of the literature soon confirmed that nationally accepted medical care standards and criteria rarely existed for the diagnoses that were of interest to the Department of Defense. Therefore, to provide advice on criteria development and review activities, the contractor created a medical advisory panel consisting of practicing clinical representatives from nine medical specialty societies: The American College of Phy-

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From the Department of Defense (Health Affairs) (Dr Mayer and Mr Newhall) and Bureau of Health Professions, Health Resources and Services Administration, Public Health Service (Dr Clinton), Washington, DC.

Reprint requests to Assistant Secretary of Defense, Professional Affairs and Quality Assurance, Washington, DC 20301-1200 (Dr Mayer).

Table 1 – Military Hospitals by Location and Number of Operating Beds

No. of Beds per Hospital	United States	Europe	Pacific	Caribbean	Total
1-25	23	10	3	1	37
26-99	62	10	4	1	77
100-199	24	2	3	1	30
200-399	12	3			15
400 +	9				9
Total	130	25	10	3	168

*An operating bed is defined as a bed that is currently set up and ready in all respects for the care of a patient. It must include supporting space, equipment, and staff to operate under normal circumstances. Nursery bassinets and transient patients' beds are excluded.

Table 2 – Medical Surgical Categories for External Peer Review Program

- General inpatient review*
  - All readmissions within 14 d of discharge from prior hospitalization
  - All surgically related deaths
  - All cases of neurological deficit, not present at admission, related to anesthesia
  - All cases of organ failure that were not present at admission
  - All postoperative or procedure complications
- Emergency services review*
  - All unplanned returns to the emergency department within 48 h of previous treatment
  - All patients dead on arrival at the emergency department where emergency transporation was the responsibility of the military hospital
  - All patients that die in the emergency department
  - All patients that die in the hospital, having been admitted through the emergency department
- Surgical appropriateness review
  - 20% of all primary cesarean sections
  - 20% of all hysterectomies
  - 20% of all cholecystectomies
  - 20% of all transurethral resections of the prostate
  - 20% of all coronary artery bypass grafts
  - 20% of all cardiac catheterizations
  - 20% of all carotid endarterectomies
  - 20% of all femoral and aortic grafts
  - 20% of all total joint replacements
  - 20% of all laminectomies
- Patient transfer review*
  - 10% of cases transferred in from military referral hospitals reviewed for timeliness and appropriateness
- High-risk diagnoses and continued inpatient review – all cases with the following 14 diagnoses
  - Principal diagnosis of hypertension
    - Lung
    - Colon
    - Breast
    - Cervix
    - Prostate
  - Congestive heart failure/congestive heart disease*
    - Atrial fibrillation
    - Diabetic ketoacidosis
    - Status asthmaticus*
    - Meningitis*
    - Ruptured appendix
    - Acute myocardial infarction
    - Bone nonunions
    - Cerebrovascular accidents*
    - Neonatal and maternal deaths
    - Preeclampsia and eclampsia
    - Delivery of low-birth-weight infants, <2.5 kg

*Indicates criteria and standards still under development.

Table 3 – Hysterectomy Standards*

Hysterectomy Presumed Indicated

- Surgery is presumed to be indicated if medical record shows any of the following
  - If patient is >24 y, hysterectomy is presumed to be indicated for any of the following
    - Preinvasive cancer of cervix, in situ "0," or cervical intraepithelial neoplasia
    - Cancer of cervix, stage I
    - Cancer of uterus (endometrium), stage I
    - Cancer of ovary, stage I
    - Fibroids (leiomyomata) in a uterus that
      - Weighs ≥0.35 kg
      - Is of the size of a ≥9-wk pregnancy
    - Tubo-ovarian abscess
    - Prolapsed uterus and stress incontinence
    - Uterine rupture
    - Recurrent pelvic inflammatory disease and chronic pain characterized as severe, lasting ≥9 mo
    - Excessive uterine bleeding (menstrual flooding defined as menstruation >8 d or if menstruation is <8 d and hemoglobin is <100 g/L) and at least one of the following two conditions exist
      - Admission hemoglobin is <10 g/L and at least one D&C† (endometrial sampling, office D&C endometrial fractional curettage, or vabra aspiration) has been performed for excessive menstrual bleeding
      - One D&C (endometrial sampling office D&C, endometrial fractional curettage, or vabra aspiration) has been performed for excessive menstrual bleeding and medical treatment has failed
    - Chronic pain characterized as severe, lasting ≥9 mo
  - If patient is <24 y, hysterectomy is indicated for
    - Malignancy
    - Tubo-ovarian abscess

Hysterectomy Seemingly Contraindicated

- Surgery is seemingly contraindicated if any of the following occurred
  - Patient is <24 y and patient does not have cervical cancer, endometrial cancer, ovarian cancer, or tubo-ovarian abscess
  - Cancer of cervix, stage II or higher
  - Cancer of endometrium, stage II or higher

*Case based: procedure is indicated, 100%, procedure is contraindicated, 0%, and population based: postoperative and pathology report diagnoses match, 100%.

†D&C indicates dilation and curettage.

Table 4 – Cholecystectomy Standards*

- Surgery is assumed to be indicated if the medical record shows any of the following
  - Cholecystitis or cholelithiasis
    - Indicated by any one of the following symptoms on history
      - Right upper-quadrant abdominal pain
      - Nausea
      - Vomiting
      - Flatulence
      - Chills
      - Fever
      - Fatty-food intolerance
    - By either of the following physical signs or laboratory findings (unless the cholecystectomy was elective)
      - Tenderness in right upper quadrant (epigastric) on physical examination
      - Temperature ≥38.3°C
    - Gallstones confirmed by one of the following
      - Nonvisualization of the gallbladder on preadmission or preoperative intravenous cholangiography or oral cholecystogram or hepato-iminodiacetic acid scan
      - Stone(s) or sludge on preadmission or preoperative ultrasound/sonogram
  - Choledocholithiasis as defined by
    - History or presence of jaundice and symptoms, roentgenographic findings, and physical signs/laboratory findings (unless the cholecystectomy was elective) as defined previously
  - Cancer of gallbladder (described in pathology report)

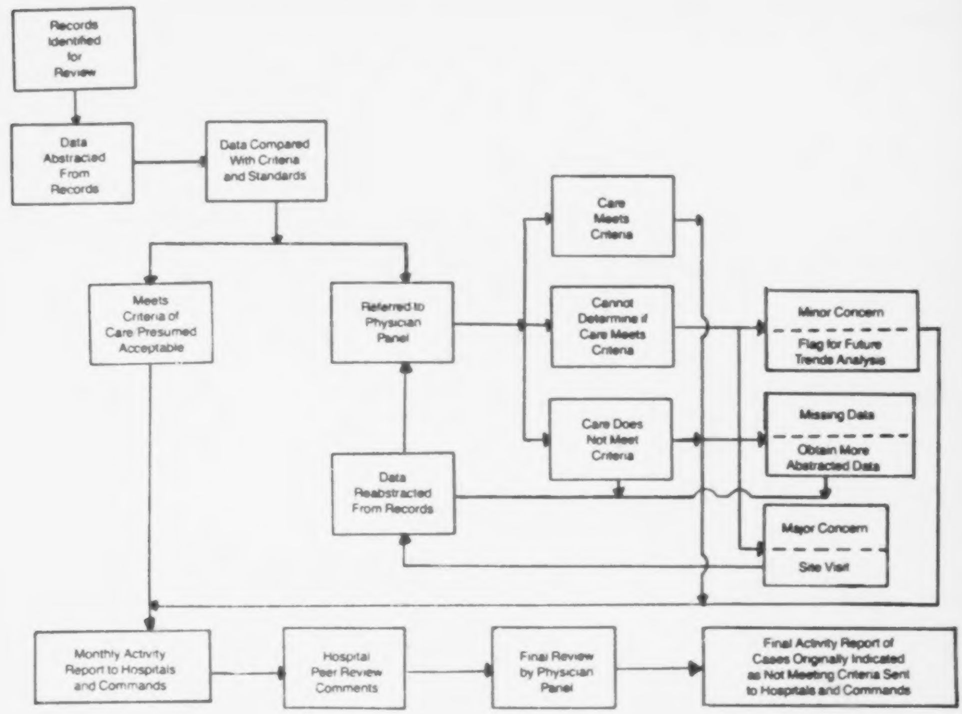
*Case based: procedure is indicated, 100%.

sicians, the American College of Surgeons, the American College of Obstetrics and Gynecology, the American College of Pediatrics, the American Academy of Family Physicians, the American College of Cardiology, the American Academy of Orthopaedic Surgeons, the College of American Pathologists, and the American College of Radiology. A second panel, the peer review panel, consists of licensed, board-certified physicians experienced in medical case review and practicing in their specialty. Department of Defense staff provided overall guidance for project implementation including the mechanisms for information flow between the hospitals and the external review process.

The external medical review system for the selected diagnoses indicated in Table 2 operates from explicit criteria and standards for medical care. These include the review of surgical appropriateness and the appropriateness of diagnostic and therapeutic interventions. At the present level of development and implementation, written criteria and standards for medical care have been created and used for the listed surgical and medical cases (Table 2) excluding the five principal diagnoses of cancer, status asthmaticus, congestive heart failure, meningitis, and cerebrovascular accidents. A defined data set for each criterion stipulates information to be collected regarding clinical treatment and findings that allow determination of whether the criterion was met. Two examples of these standards and criteria sets are provided in Tables 3 and 4.

The magnitude of this review process, employing uniform standards and an enormous volume of data, is unprecedented. To accomplish the task, traditional methods of review have been coupled with modern data-processing techniques to allow maximal use of computer analysis of data and highly focused review by the peer review panel of practicing physicians.

The review process begins by the military hospital's identifying, through a computer-assisted sampling program, the patient records to be reviewed, for example, 20% of all primary cesarean sections (Table 2). The hospital medical


Records Identified for Review
Data Abstracted From Records
Data Compared With Criteria and Standards
Meets Criteria of Care Presumed Acceptable
Referred to Physician Panel
Care Meets Criteria
Cannot Determine if Care Meets Criteria
Care Does Not Meet Criteria
Minor Concern
Flag for Future Trends Analysis
Missing Data
Obtain More Abstracted Data
Major Concern
Site Visit
Data Reabstracted From Records
Monthly Activity Report to Hospitals and Commands
Hospital Peer Review Comments
Final Review by Physician Panel
Final Activity Report of Cases Originally Indicated as Not Meeting Criteria Sent to Hospitals and Commands

External civilian peer review monthly cycle

records of all inpatients discharged three months earlier (ie, records sampled in June are those of patients discharged in March) are eligible for sampling. The sampling of a given diagnostic code is based on a digit sampling of the patient's social security number, a specified data set for all patients in military hospitals. The time lag allows an optimal period for completion of the hospital discharge summary and organization of the record according to military and Joint Commission on Accreditation of Healthcare Organizations standards.

Trained abstractors, generally registered record administrators, or accredited record technicians, visit the military hospitals on a regular basis (monthly except for hospitals with an average daily inpatient census of fewer than ten, in which case the visit is quarterly) and abstract the sampled medical record data pertinent to the patient specific diagnosis or procedure under review. The abstractors' reliability is routinely measured for interrater reliability, which on average is greater than 98%.

Abstracted data are entered into a microcomputer on-site, then mailed on floppy disks or tape cassettes to a central computer for processing. The computerized abstracted data are then compared with computer algorithms created from the medical standards and criteria.

Cases meeting the review criteria are presumed to be acceptable. Those cases failing the review criteria are subject to further review by the physician peer review panel. Cases that suggest potentially serious care deficiencies but need extensive clinical review of the patient's chart and consultation with the military hospital staff trigger an on-site visit by a civilian physician specialist. Physician panel members and physician on-site reviewers are of a specialty appropriate to the case(s) under review. Those cases missing essential data necessary for the assessment of care are deferred for review pending the abstractor's retrieval of the missing data at a subsequent hospital visit. Cases that by themselves do not reflect a significant deficiency in care but warrant monitoring for a potential questionable medical practice pattern are identified for a future trends analysis that is planned for late 1988.

Any case judged preliminarily by the medical review panels as either a minor or major deviation from stated standards and criteria is referred to the military hospital that provided the care. Comments from the military hospital staff review are considered further by the medical review panel before a final judgment is made.

A flow diagram of these specific process elements is provided in the Figure. The monthly report of each hospital's experience is received by the military hospitals. Each medical command receives a report of all hospitals under its jurisdiction. At the hospital, this information is incorporated into the ongoing physician peer review of the quality assurance program in the hospital. The medical commands use this same information for general oversight of the quality of care provided by the military hospitals.

An inherent characteristic of this review system is that all preliminary analyses are based on review of defined sets of data abstracted from medical records, which are compared against explicit patient care criteria and standards. The limitations in using abstracted data are recognized and considered at all stages of review. Final determinations and reports involving individual cases alleged to be in noncompliance with the standards and criteria are made by practicing physicians and, where deemed necessary, are based on the complete chart review at the hospital. The review system process provides for the reabstracting of those medical records associated with cases that the physician review panel evaluates as potentially in noncompliance with standards or in need of a site visit. This limits the number of cases that otherwise might have been misevaluated due to errors in the initial abstraction of data or the absence of specific clinical information at the time of initial abstraction.

RESULTS

The original design of this activity focused on the review of individual cases. Analysis of aggregate cases, for example, all those cases sampled in a given month or a given hospital, was not the primary emphasis and the database management capacities of the program did not facilitate this analysis. Estimates of the aggregate results have been made, however, and the Department of Defense believes these estimates reasonably reflect the overall results in sufficient detail for programmatic adjustments and collective quality of care improvements.

The medical records sampled and abstracted represent approximately 7% to 8% of the total hospital discharges. Approximately 15% to 20% of those cases sampled and abstracted fail the computerized screening and are referred to the peer review panel. Of these, approximately 75% are judged by the peer review panel to comply with the standards of practice as specified. These represent, therefore, "false-positives" from the initial screening. This leaves about 4% of the total cases tentatively not complying with the standards established. The subsequent review by the military hospitals and further consideration of this information by the peer review panel results in another 75% reduction in the cases judged to be in compliance with the specified standards. Therefore, less than 1% of the overall sampled cases are in noncompliance with stated standards.

A review of cases that contribute preponderantly to this rate provides additional insight. Of the cases reviewed during the period March 1986 through October 1986, five clinical review categories had four or more cases that, on final review of all abstracted information and subsequent military hospital comments, were judged as in noncompliance with specified standards. The highest rate of noncompliance (ten [11.6%] of 86 sampled) was for diabetic ketoacidosis. Among these the most frequent deficiency was the failure to document blood pH within 24 hours before discharge. The most frequent noncompliance event was hysterectomy (25 [1.7%] of 1432 sampled). By far the most common deficiency in these cases was the failure to perform a preoperative sampling of the endometrium. Because of the considerable debate generated by the military obstetrics and gynecology community regarding the appropriateness of this criterion, a consultative meeting of the leading military gynecologists with civilian counterparts identified by the American College of Obstetrics and Gynecology resulted in further criteria and specification. Cases of bony nonunion were the next most frequent noncompliance set (five [1.7%] of 282 sampled). No single factor explains the diversity of failures to meet the standards for this diagnosis. Four (0.9%) of 462 of the cases of ruptured appendix sampled failed to meet the standards and four (0.4%) of 891 of the cases of myocardial infarction failed to meet the standards.

COMMENT

The Department of Defense initiated a medical care peer review program to demonstrate the quality of care defined by selected medical and surgical cases. Rejecting more traditional preponderantly subjective medical records review and recognizing the paucity of generally accepted criteria in the medical literature, the Department of Defense program has created system-wide, objectively stated medical care criteria and standards with the assistance of nine civilian US medical specialty groups. Again rejecting traditional methods of direct medical records review, the Department of Defense program has developed a capacity to abstract essential data for comparative analysis against the defined criteria and standards. Practicing physician peers are used to review all cases not meeting the defined criteria embodied in a computer program logic. These peers can request more data and make site visits if unusual circumstances or data present. Each hospital with a tentative and presumed failure to meet the established standard in a specific case has an opportunity for review and comment before the peer review panel makes a final disposition.

To date, several important lessons have emerged. Of primary importance, the quality of care among these selected cases, as measured by compliance with civilian physician specialty group–endorsed standards, appears high. Less than 1% of diagnoses reviewed to date by the external peer review group fail these criteria. To our knowledge no equivalent civilian sector program exists; thus, no comparisons can be made.

The process and feedback of quality of care information to the military hospital has contributed to the ongoing quality assurance peer review that had been established concurrently. Reports from military hospitals frequently attest to the corrective factors already taken to avoid the same errors. Groups of physicians, such as the gynecologists, have met to debate further the appropriateness of criteria and standards. The constant constraint of medical record coding errors, either from clerical mistakes or incomplete information on which to base the medical and surgical diagnoses and procedures codes, has been highlighted. This issue, combined with a tentatively planned utilization of diagnosis related groups for resource allocation decisions at the military hospitals, has led to a commitment for encoders and related automated information equipment to help alleviate this problem. The program has also reconfirmed other medical records deficiencies that will be assessed by a Department of Defense medical records advisory group created for this purpose.

Because no other medical care system utilizes, as yet, this standardized review against medical care standards created by civilian professional society members, we are unable to compare our results with those of others. Patterns of care by providers or by hospitals over time have not yet been analyzed because of data processing constraints. A new contract beginning in October 1987 and essentially sustaining the original concepts of the first contract will address these analytical challenges of assessing medical care by providers over time.

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DIRECT CARE SYSTEM

Dr. **Mayer**. We continuously monitor care, and by maintaining a very close relationship with state boards of medical examiners, and the new national practitioner data bank, and without damning anybody for a lifetime because of medical mischance or malpractice allegation; the fact is that nobody guilty of misbehavior as a physician or other medical professional in the Armed Forces will leave the Armed Forces with that record a secret. It will be part of the national practitioner data bank.

We have as you know, in addition to a major readiness mission, the ongoing 24 hour a day, seven day a week mission of taking care of approximately 7 million additional people over and above the soldiers and sailors and airmen and marines. This has proven to be a subject that we have had to concentrate on very hard for the last few years.

What we have done in making real efforts to improve that system and to keep it under some kind of fiscal control is to start on a very limited very carefully controlled way investing some CHAMPUS dollars into the direct care system to increase its productivity and diminish the rising use of CHAMPUS. We have also drastically reduced our reimbursements to civilians providers which in the past were open ended.

We have changed our payment mechanisms so they are now very modern and very tight. I can give you more details on that.

MANAGED CARE

Third, we are moving into an era of managed care. Managed care simply means that the patient no longer without help decides that he or she needs a specialist in dermatology or gynecology or obstetrics but has a manager, a physician manager, a primary care physician who makes those decisions so that the rest of the medical system can be properly used.

And finally, we have made a complete change in the total chaos that surrounded forecasting the CHAMPUS expenditures. In all seriousness, I have to say that the health affairs people have fairly accurately forecasted the cost of CHAMPUS, but the people who manage money with whom we have to work have not really believed our forecasts so we have been under funded and we have come to you over and over again for additional money some time in the year. That is finished.

In 1988, we needed no supplemental appropriation, and so far in 1989 with more than a third of the year gone, we are right on target of what we said we were going to spend.

CHAMPUS REFORM INITIATIVE

About CHAMPUS reform—as you know, the CHAMPUS reform initiative was an attempt to convert CHAMPUS from a completely open ended system where we simply paid whatever the bill was, to a business-like system in which we entered into an agreement with a reputable contractor that put him at risk as well as the government. The days of the government being the only one at risk as far as I am concerned should have ended years ago. So we share the risk with the contractor on a fixed price basis.

We have imposed many more restrictive covenants with respect to the quality of care. Under CHAMPUS in its standard form we couldn't manage the quality of the practitioner, because we didn't know who the practitioner was until we got the bill.

Under this contracting system we can know in advance who is providing the care and what it is going to cost. CHAMPUS reform does another thing, it provides the patient who we can't take because we don't have a bed of the right kind or a specialist of the right kind and who therefore has to get care outside the military hospital, with a direct referral with options to somebody that we know is competent to take care of the problem, will accept that patient, won't require the patient to do any paper work and will charge a minimal copayment. That is one of the issues that we have to talk about.

The S&I team questioned how we can reduce copayments and not expect to drive up the CHAMPUS business. It is true that the copayment as they noted under the CHAMPUS reform are less than many people such as federal employees have to pay under their health plans.

The fact is, however, that the co-payment has become very burdensome and very onerous, especially for dependents of our lower ranking people and our retired people particularly those who retired some years ago, because 20 percent of a $7 office visit back in 1965 is not in any sense comparable to 20 percent of a $100 office visit, which is very common today.

Since it has been very hard for our people to make those copayments, we have reduced the copayment requirement under CHAMPUS reform in order to attract people into this system because the savings that are inherent in the system are far greater than the smaller amount that we would collect through co-payment. So we should show a very significant net profit in doing that.

For CHAMPUS reform, we hired a very reputable contractor, Foundation Health Corporation, in California, which is responsible for a number of commercial plans, and a major provider of health care coverage for the state employees in California. They were recommended to us by people in the American Medical Association as being very legitimate and very skillful.

Indeed as they started the CHAMPUS reform program in California and Hawaii on the first of last August, things went along swimmingly, that is to say more people signed up for it, almost twice as many as we expected. The patient complaints about failure to get care or quality of care dropped off immediately, practically to nothing. Patients were being given preventive care that wasn't available under CHAMPUS and in general everything was fine. Of course we started that program very carefully looking at the contractor and everything that was done.

People from my ofice and the Defense Contract Auditing Agency were on site from the very beginning. Therefore, we were able very early to discover that their computer base, their support, was just really not doing the job and a lot of their providers who had signed up with Foundation were not getting paid or there were long delays.

Unlike ordinary CHAMPUS this didn't hurt our patients. Under ordinary CHAMPUS if a claim is denied or delayed and if the patient has had to pay the doctor out of pocket then it is the patient who is waiting for CHAMPUS to make good the bill. In this case, it was strictly the providers. We have investigated and found that there has been not a great exodus of providers. However, in spite of this we have directed the contractor to pay 50 percent of the outstanding claims, at least up to 70 percent of the value of the claim.

Right up to the last minute before I either had to cancel the program or exercise the option to continue which was the first of February, until I got documentary proof that the government funds were not being placed at risk, that they would improve their computer system, I was not willing to continue. However, they hired Electronic Data Systems, a subsidiary of General Motors to do their claims processing. They also changed the management of the system, by putting into place two very senior people with great government experience, one a retired admiral who was commander of Naval Sea Systems Command and who has enormous experience in dealing with government contracts and a rear admiral who had worked with him as the Chief Executive in the part of Foundation Health Plan that serves us.

We couldn't demand such a change because the contracting rules are such that I can't tell them fire this guy and hire this guy. We made it clear I wasn't going to renew if there continued to be a misuse of funds, if there continued to be a poor data processing system, if there continued to be a poor management system and if they didn't have fiscal vigor or sufficiency to guarantee me that they would survive for the next six months and continue doing what professionally was a very good job from a medical standpoint.

So that is the status of CHAMPUS reform. In addition however, one last point, I have directed my staff to have in place an even larger number of our own staff out there day-to-day watching and helping them improve their process.

[The statement of the Dr. Mayer follows:]

STATEMENT OF WILLIAM MAYER, M.D.
ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am pleased to have this opportunity to appear before you to discuss the medical programs of the Department of Defense.

This year the Department's request approaches $13 billion to support health care operations and personnel for the nation's military health care system. 2.2 million active duty members receive highest priority for care, consistent with our primary responsibility to meet the health care needs of our uniformed personnel during peace and war. Yet our total health care mandate extends far beyond that, to an eligible beneficiary population that includes some 7 million dependents of active duty, retirees and their dependents, and survivors.

This year I have good news to report to you. We have made substantial progress in curing the readiness problems that faced us so dramatically just five years ago. Similarly with quality, public confidence has been restored to military health care. And, we have wrestled with and won the battle against out-of-control costs in the CHAMPUS program.

Today I will briefly summarize the programs which keep military medicine pre-eminent in health care today, and discuss where I hope it will go in the future.

Medical Readiness

Medical Readiness has been and will continue to be our highest priority. Since 1981 DoD has dramatically corrected both sides of the readiness equation: procurement of wartime medical equipment and critically needed wartime personnel. Deployable medical assets, known as DEPMEDS, had been neglected for years, seriously undermining our medical readiness stance. Today, 75 percent of the minimal requirements for deployable equipment is either on hand or on order. The equipment has been standardized, tested and readied for positioning in key areas of the world.

There are now more than 100 additional medical specialists in the most critically short wartime specialties in the active force, up by 11 percent since 1982. In the reserve component, the Department has seen a 57 percent growth in physicians and a 63 percent growth in nurses serving in the Ready Reserve since 1982.

In 1982, the Department lacked an integrated, strategic medical planning document. Last year, the first DoD Medical Readiness Strategic Plan was executed and today more than half of its 289 milestones have been completed. Mr. Chairman, as a nation we are no longer in a position of weakness medically in the event of war. We are proud of this fact, and grateful for the support of this Committee in the realization of these important objectives.

Quality Assurance

As no Member of this Subcommittee can forget, the early 1980s were a period of turbulence for the military health care system, based on questions about the quality of military medicine. That is no longer the case.

Civilian External Peer Review of Military Medical Care has been ongoing since June, 1986. Fifty-one aspects of patient care are identified for review. Medical care criteria were developed under the auspices of our contractor with the assistance of national medical specialty societies and approved by DoD. Review of patient care that fails the automated screening criteria is conducted by a panel of civilian physicians, comprised of board-certified specialists with active medical licenses and hospital admitting privileges. National medical specialty society representatives are included in all panels. The External Peer Review Program is confirming that the quality of medical care in military hospitals is indeed high, even when measured by explicit criteria against high risk medical and surgical events. As an article in the November 11 edition of the Journal of the American Medical Association reported, fewer than one percent of all reviewed cases to date fail to meet the stated standards and criteria established by the external medical review panels.

An editorial in the AMA Journal observed that "The approach used by the Department of Defense is likely to diffuse throughout the (civilian) medical care system because it has the potential to facilitate peer review that is more objective and cost effective." Mr. Chairman, if there is no objection, I would like to submit this article and editorial from the Journal of the American Medical Association for inclusion in the record of this hearing.

We have recently published a new Directive on Medical Quality Assurance that requires the accreditation by the Joint Commission on Healthcare Organizations of all fixed hospitals of 25 or more beds by December 1991. It also calls for the continuous monitoring of quality and appropriateness of care, the review of malpractice data using the Risk Management process, and verification of credentials for licensed ancillary personnel.

We have also refined and strengthened the ongoing assessment of provider performance through the issuance of a revised Directive on credentials review and clinical privileging. The Directive provides guidance to commanders on specific actions to be taken when questions of provider misconduct arise. It also assures that there will be a dialogue between the Services and civil agencies such as State Licensure Boards through a structured relationship with the National Practitioner Data Bank. The DoD program was praised by the Inspector General of the Department of Health and Human Services in a recent inspection of Federal medical programs.

PEACETIME OPERATIONS

As I noted, the Department's ability to perform its primary wartime mission has been vastly improved by our medical readiness achievements. While we have no greater obligation than to care for our service people in time of war, we have a critically important peacetime mission as well. The day-to-day peacetime operation of 168 military treatment facilities and over 800 medical and dental clinics worldwide and the management of the $2.6 billion Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) program require constant attention to strengthen management and control costs.

The medical staff needed to meet our peacetime health benefit responsibility is quite different from the medical force needed to meet our wartime obligation. Combat medicine is weighted more heavily toward surgical care, whereas peacetime health care consists more of treating common illnesses and routine procedures. Our determination to accomplish both of these missions much more effectively demanded that we explore new approaches.

Over the past few years, the Department has focused a considerable amount of energy on the peacetime mission. The complexity and magnitude of the problems which have plagued the CHAMPUS program -- which accounts for over one-third of the total admissions and over one-fourth of the total outpatient visits provided through the Military Health Services System -- required that we pursue innovative and varied approaches to CHAMPUS reform. Our intense efforts are paying off.

Our strategy employs four approaches to management reform:

(1)using CHAMPUS dollars as "investments" in the generally less costly direct care system;

(2)drastically reducing our reimbursements to civilian providers through modernizing our payment mechanisms;

(3)testing a variety of managed care health care programs to meet the unique health care needs of a military population; and

(4)eliminating the turbulence in CHAMPUS funding by improving our forecasting and claims payment methods.

CHAMPUS Investments in the Direct Care System

Our belief is that investment in military medical treatment facilities is the most significant long-term strategy to contain CHAMPUS costs. By improving the ability of military hospitals to provide care, we hope to affect the dramatic increase in patient care referrals from the direct care system to the generally more costly CHAMPUS program.

Our investment initiatives include the Military-Civilian Health Services Partnership Program, Health Care Finder Programs, and the Alternate Use of CHAMPUS Funds Test.

Each of these allows the Services to use CHAMPUS funds to increase military treatment facility capability in a number of ways. Through the use of civilian providers, paid discounted rates, to treat CHAMPUS patients in the military hospital, hospital capability and productivity can be increased. Such programs also use CHAMPUS funds to augment military hospital staff, or to help patients find appropriate health care when it is not available in the military hospital or clinic.

Payment Reforms

Between September 1987 and December 1988, DoD promulgated five separate payment reforms which have dramatically curbed the rapid growth of CHAMPUS costs for care purchased from civilian providers. Prior to 1987, CHAMPUS costs were increasing 25 percent per year. From 1987 to 1988, we reduced that rate of growth to just 6 percent. During that same period, private sector employer costs for health care jumped nearly 20 percent.

Payment reforms center on the use of Diagnosis Related Groups (DRGs) to pay CHAMPUS inpatient hospital charges on the basis of a fixed, prospectively determined rate. This reform alone will save more that $1 billion in CHAMPUS costs between now and FY 1991. Mental health care, another major component of CHAMPUS costs, has also been brought under prospective payment through fixed per diem rates in psychiatric hospitals and units and DRGs in general hospitals. Incorporation of alcohol and substance abuse, neonatal care and children's hospitals under DRGs this fiscal year means that virtually all hospital care is under prospective payment. The government projects an additional $211 million savings from these refinements through FY 1991. We are also limiting increases in payments to individual providers by linking professional fee increases to the Medicare Economic Index to save over $160 million by FY 1991.

Managed Care Demonstrations

Three managed care initiatives are now underway: the CHAMPUS Reform Initiative, the Fiscal-Intermediary-Preferred Provider Organization demonstration, and Catchment Area Management demonstrations Each is being conducted to save money and improve access to services, especially when military treatment facilities cannot meet the full demand for primary health care posed by dependents and retirees. Each program induces beneficiaries to use a preferred network of high quality, cost effective health care providers rather than the more costly, traditional CHAMPUS program.

The CHAMPUS Reform Initiative, well known to this Subcommittee, operates under a fixed-price contract in California and Hawaii. In addition to better access to care for DoD beneficiaries in these States, we estimate the CHAMPUS

Reform Initiative will cost 10 percent less than CHAMPUS would otherwise cost. Five Catchment Area Management projects now in planning stages will make CHAMPUS funds available to hospital commanders responsible for management of all health care needs of a catchment area population. A new Fiscal Intermediary Preferred Provider Organization Project, under which our CHAMPUS Fiscal Intermediary also manages a Preferred Provider option for DoD beneficiaries, is operating in Florida and Georgia, where it is expected to save at least $4 million annually.

All three of these managed care demonstrations are subjects of very thorough evaluations being conducted for DoD by the RAND Corporation. As experience is gained from these and other health care demonstrations, we will construct a composite managed care model which will employ the most advantageous features of each for the military beneficiary population.

CHAMPUS Reform Initiative

The CHAMPUS Reform Initiative demonstration, now operating in California and Hawaii, is so far proceeding in a reasonable way. Managed care for our beneficiaries in those states is working. Beneficiary satisfaction is high. However, operationally our contract with the Foundation Health Corporation has had some problems. Fortunately, our monitoring of this important project identified these deficiencies early, and we have taken strong steps to correct them.

It is not unusual in a change of fiscal intermediaries to experience problems in claims processing. In the case of the CHAMPUS Reform Initiative, we were presented with serious difficulties, including significant delays in payment of claims to participating providers. These problems were so serious that I considered not exercising the contract option period which began February 1. However, significant progress was achieved during January toward resolution of all outstanding issues. An alternate claims processing capability has been purchased by the contractor, potential financial risks to the government are being limited, and several new senior managers with significant government contracting and business management experience have been added to the Foundation Health Corporation team.

I believe that the identified operational problems have been adequately addressed by Foundation Health Corporation. An enhanced flow of information among the contractor, subcontractors and MTF commanders will produce faster results in correcting program deficiencies. Our intense oversight will continue to assure sufficient improvement into the Spring to warrant going ahead with this important health care initiative. At the Department's request, the RAND Corporation has recently prepared an initial evaluation report. It reports a continuing development through this "shake-down" period and the caution that "it would be premature and even irresponsible to assess CRI's effectiveness" at this point in the demonstration. This supports my belief that a year from now, its total accomplishments can be better assessed.

CHAMPUS Forecasting and Funding

Historically, the Department's inability to accurately budget for CHAMPUS costs had resulted in severe turbulence in CHAMPUS claims processing and payments, not to mention frequent requirements for supplemental appropriations from this Subcommittee. DoD mounted an aggressive effort to improve forecasting of CHAMPUS costs through better definition of cost components, and refinements in our forecasting methodologies. The result is a big improvement in FY 1989.

A third of the way through this fiscal year, CHAMPUS spending is on track with our projections. After the turbulence experienced between FY 1985 and 1987, sufficient funds were available to pay all claims processed in FY 1988, no unpaid claims were carried over into FY 1989, and no mid-year supplemental appropriation was required.

Admittedly, we have been concentrating the bulk of our reform efforts on controlling CHAMPUS and its previously spiralling cost escalation. These reforms have proved successful. Managed care is now a part of the Military Health Services System landscape. Voluntary enrollment in California and Hawaii has taken hold. By the end of 1989, one out of every three eligible CHAMPUS beneficiaries --- 2 million people --- will have managed care options available for their use.

Additionally, programs are in place to enhance the capability of military treatment facilities to provide more care in-house. This is ultimately the surest approach to reducing CHAMPUS costs, and is urgently needed. The overriding factor in rising CHAMPUS costs continues to be workload coming out of the direct care system. Statistics through FY 1988 show a continued decrease in admissions (since 1985) outpatient visits (since 1983) and operating beds at military treatment facilities and a continuing growth in the patient admissions and visits purchased in the civilian sector using CHAMPUS funds.

Effecting Change in the Direct Care System

We have provided some new flexibility to hospital commanders to use CHAMPUS dollars to enhance medical treatment facility capabilities. But clearly, we need to do more to improve the productivity of the direct care system and to do a better job of stewardship over health care resources.

Diagnosis Related Groups as a Basis for Resource Allocation

The Defense Authorization Act of 1987 directed the Department to establish Diagnosis Related Groups (DRGs) as the primary basis for resource allocation to military treatment facilities. This Committee reaffirmed its strong support of this initiative in last year's report.

Execution of this task is a formidable challenge for the military health care system. Unlike civilian hospitals, military hospitals and clinics do not identify the cost of individual patient cases, nor do they produce a patient bill from which a DRG weight based on cost can be derived. In addition, cost accounting differs among all three Services, and separate costs cannot be segregated for inpatient and outpatient care. Often hospital commanders must operate with handcuffs within various appropriations categories which limit the reallocation of resources from low to high resource intensive activities.

DRGs offer two principal benefits to the military health services system. First, an allocation system that is based on the intensity of patient care workload should improve productivity. Second, a DRG allocation system will automatically distribute available resources among MTFs more equitably. Once we are able to examine patient care mix in a reasonable way, those hospitals that put the most resources on high cost services and reduce unnecessary resources applied to low cost services will be rewarded accordingly.

My office is moving ahead with implementation of this program. We have developed a method of weighting inpatient and outpatient dispositions as a DRG-type resource allocation method. We began in October, 1988, by using this for allocation of resources in the supply cost category which represents approximately 30 to 35 percent of the MTF operations and maintenance budget. In the meantime, we have just awarded a contract to look retrospectively at MTF patient care admission patterns. In FY 1989 we will award a contract to begin formal encoding and grouping of patients and treatments into DRG groups. The computer software to facilitate this at the MTF level should be proliferated in FY 1990. Looking beyond 1990, the Composite Health Care System (CHCS), is expected to be integrated with the majority of DRG program features prior to its full implementation.

The application of DRGs to the military health care system is a very complex task, but one which holds promise for marked improvements in resource management and productivity of military hospitals and clinics. It should have great implications for the use of CHAMPUS resources as well, by permitting MTF commanders to know more precisely the costs of services, and to make deliberate choices about care that is provided in-house and that which it would be more economical to purchase from civilian providers.

JOINT HEALTHCARE MANPOWER STANDARDS

A recent report to this Committee by the Surveys and Investigations Staff found that adequate staffing of Military Treatment Facilities is a problem at many hospitals. As the Blue Ribbon Panel on Sizing DoD Military Treatment Facilities pointed out several years ago, each of the Services staffs its hospitals differently with respect to both total manpower and provider mix per unit of workload. Rather than staffing hospitals based on estimated and validated requirements, staffing of military health facilities is too often driven by manpower allocations. This makes it difficult to ensure that staffs are adequately sized.

To address this problem, Health Affairs launched a two-phased initiative to develop command manpower standards for all work centers in the Military Health Services System. Publication of the initial set of 39 standards will be later this fiscal year. We are well on our way to ensuring that a common standard for adequate staffing exists for all our military health facilities.

VA/DOD Sharing

The Congressionally authorized program for VA/DoD Resources Sharing has proven beneficial to military hospital commanders. This Subcommittee has had some reservations about the cost-effectiveness of this program, in particular the wisdom of expanding sharing to include the use of CHAMPUS funds in VA facilities. Your concerns with respect to closer monitoring of quality, cost accounting and productivity are valid and ones which I have instructed my staff and the Services to satisfy. In the future, VA/DOD Sharing projects will be subject to a new external monitoring system, and will be approved only if they comply with basic reimbursement guidelines and recurring reporting requirements. New review mechanisms will ensure quality, productivity and savings.

I want to take this opportunity to comment on recent calls for legislation to mandate joint administration of military hospitals and Veterans Administration facilities. While I recognize the resource problems now facing the VA, I could not endorse a proposal that would take two overburdened health care systems and effectively merge them. Such a move would so consume the administrative resources of both Departments as to cause deterioration of patient care and the management systems of each. I cannot permit anything to erode this Department's determination to fulfill its mission of medical readiness, protection of the military health benefit for all eligible DoD members and their families, and attention to cost and quality health care. It is vital that DoD and the VA continue resource sharing agreements where they prove helpful. But calls for legislation to force regional joint administration and to compel use of CHAMPUS funds to pay for care in VA facilities remove our beneficiaries' freedom of choice, threaten the ability of veterans to gain access to VA facilities, and resemble a Trojan horse hiding a full scale merger of the military and Veterans medical systems.

This completes my statement. I will be pleased to answer questions at this time.

CHAMPUS REFORM INITIATIVE (CRI)

Mr. **Murtha**. Let us ask a few questions about the CHAMPUS Reform Initiative because it could have such an impact on what happens DOD-wide. The Members know that we have taken a personal interest in the medical services and we appreciate your cooperation. We believe that CHAMPUS money can be used more efficiently. We think that is the most inefficient way to spend government money, and we think this program could change the way things operate through your whole system, if it works out. You say you have reduced the amount of money that the individual pays, or the beneficiary pays. How much did you reduce it, from 20 percent to what?

Dr. **Mayer**. To a flat amount. So that for an outpatient visit the patient pays $5 in most instances.

Mr. **Murtha**. So you are using CHAMPUS money but you are charging a flat fee. This is working so efficiently you are able to do better than you would if they were going to an ordinary doctor?

Dr. **Mayer**. Absolutely.

COST: MTF, CHAMPUS CRI, ETC.

Mr. **Murtha**. Where does this fit in. We know the most efficient medical services are in a Military Treatment Facility.

Dr. **Mayer**. Right.

Mr. **Murtha**. Second is the contract services, I assume and then CHAMPUS is third. Additionally there are the NAVCARE Centers and so forth that you have throughout the country. Where does all this fit in? Have you been able to validate what the cost of the government is per patient compared to other systems?

Dr. **Mayer**. No, sir. It is my belief and it is reenforced by the Rand Corporation who is doing an evaluation of this contract over a long period of time. They have done a preliminary evaluation that pointed out, and I agree, that it is far too soon, and would probably be irresponsible to try to attach dollar amounts. This year the contract is expected to be five percent less than what we conservatively estimated we would spend on CHAMPUS. In subsequent years if the program continues, we will be at least ten percent less.

Mr. **Murtha**. How many beneficiaries——

Dr. **Mayer**. The whole area contains about 800,000 beneficiaries, 12 or 15 percent of the total number of people eligible for CHAMPUS coverage who live in Hawaii and California. The number of people who signed up in the first six months exceeded 25,000. By the best marketing estimates we expected maybe 12,000 to 13,000. One of the things that has brought them into this has been the fact that they don't have to put out an undetermined amount of money in advance of whatever the doctor sees fit to charge.

It really doesn't matter what we are willing to pay the doctor for a routine office visit as in the case of cystitis, which is a fairly simple problem, a fairly simple diagosis and a fairly simple treatment regime. I have first-hand reports of such visits in Washington, D.C. costing $135.00. With CHAMPUS Reform, we won't pay anything like that, but the patient would still have to pay 20 percent of that $135.00 under CHAMPUS. Under this managed care contract system, the over 9,000 healthcare providers who have signed up with the contractor have agreed to a fixed rate charge which is discounted below the average that is charged in that community for that procedure.

So we start from a lower reimbursement to the physician or the hospital, and the patient still only pays this small flat fee. We sent yesterday a detailed report on this to you, so it should be in your hands.

SATISFACTION WITH CRI

Mr. MURTHA. So the beneficiaries are very happy with the service?

Dr. MAYER. As far as we know, yes, sir. And also the military hospital commanders are very happy.

Mr. MURTHA. And you are satisfied they are getting good professional care?

Dr. MAYER. Yes, sir.

Mr. MURTHA. The only problem at this point is the computer system and getting people paid. With a new management team that should be taken care of?

Dr. MAYER. Yes.

HEALTH CARE FINDER

Mr. DICKS. I think this sounds very impressive, but how does the soldier or sailor know which doctors are in the program?

Dr. MAYER. I am glad you asked that. It is like I paid you for that question. A major part of this initiative is called the Health Care Finder system at more than 100 locations throughout the two states.

Mr. DICKS. This is all of Hawaii and all of California?

Dr. MAYER. Yes, sir. When the patient seeks care, they come to a military treatment facility, in the vast majority of instances, and describes their problem to a health care finder who is a professional person usually a registered nurse.

The health care finder knows exactly how many beds are available on every service within that hospital and whether it is staffed so they can take another patient.

If they can't, then the finder's responsibility and this is something we were just letting slip in previous years, is to show the patient a list of doctors who will accept our beneficiaries as patients who we have established are qualified, have openings for patients and who will do the paper work too so the patient doesn't have to submit any claims.

The health care finder does two things—first it assures that we use the military hospital to its optimum capacity because that is really the first refusal.

Second, if we can't take the patient, the finder guarantees that the patient has a list of people to call to make an appointment or the finder may make the appointment for the patient.

Before if we couldn't take the patient, we just said, sorry, we don't have a bed. Then the patient went home and called a friend and said, who do you go see——

Mr. DICKS. And they called their Congressman.

Dr. **Mayer**. Yes. That is a pivotal element, the central element of the whole system because we wanted to do business in a businesslike manner and we want to stop being gouged for money and we want to improve the quality of care.

CRI TIMETABLE

Mr. **Murtha**. How long will this particular pilot project last before you can expand it, if it is successful, to the rest of the country?

Dr. **Mayer**. I want them to have a full year of operation. Rand is evaluating and it will take them several months to do that. Only as a result of those studies will a decision be made as to whether or not the program should be modified, expanded, or closed down altogether. We have some other programs, some other demonstrations.

ORGANIZATION OF OTHER PROJECTS

I bitterly resent the Surveys and Investigative—S&I—group's assertion that there is no overall plan or no objectives and common goals. The goals are very clear and the plan is very clear. We have a fiscal intermediary in each of six areas around the country. The fiscal intermediary for Georgia and Florida is undertaking to set up preferred provider organizations to do some preliminary review of the necessity for admissions, things of this sort. That has been found to be useful in the civilian community. That is the "blues" of South Carolina are doing that and they are ecstatic about the results. They say they are showing great reductions——

Mr. **Murtha**. The S&I study was done over a year and a half ago. You have improved the system and the criticism won't be valid now. We had real problems particularly in the Navy and the beneficiaries weren't receiving adequate service and we appreciate the improvements. Do we have any other questions on this particular thing because I wanted to talk about policy in addition to this.

CRI AND COST CONTAINMENT

Mr. **McDade**. Could I take a second, Mr. Chairman. It is a pleasure to see you, Doctor, and I want to join the Chairman in extending our thanks to you for your great service knowing this is probably your last appearance. We will miss you.

I want to get clear in my mind the keys, in your judgment, to effectiveness in this system. It seems to me they are first an assurance of quality, secondly, a cost containment in which you have in effect negotiated in the market area a given price for a given problem.

Dr. **Mayer**. Right.

Mr. **McDade**. The third thing, I thought I heard you say, was that if a military retiree of a dependent was forced to use the system that they would pay a $5.00 fee for an office visit?

Dr. **Mayer**. Yes sir.

Mr. **McDade**. And then have a subsequent liability to pay up to 20 percent——

Dr. **Mayer**. No, sir, that is it.

Mr. **McDade**. It is $5.00, period?

Dr. **Mayer**. Per visit.

Mr. McDade. So the cost containment that you see and project really are DRG type approaches even at discounted rate within a given market area. That is the sole area in which there is a compression of price for the services rendered, is that a correct statement?

Dr. Mayer. Yes, sir.

Mr. McDade. That is what I wanted to be clear on.

CO-PAYMENT AND UTILIZATION

Dr. Mayer. Recall if you will please that the co-payment that the patient made didn't come to the government in any way. It wasn't a source of revenue for us.

Mr. McDade. You were almost a disinterested party——

Dr. Mayer. Uninvolved. The original idea of co-payment was good and is still good. There is no question that when the patient has to participate in financing care, more judgment is exercised by the patient in the use of care. Recently in Egypt the Minister of Health told me that they had discovered that even in a totally socialized medical system, when they started charging people a little bit it started reducing utilization.

This is an important point that I would like to make today. It is widely believed that because medical care certainly in the military hospital is free for the eligible beneficiaries, and is relatively cheap at 20 percent co-payment or 25 percent, with CHAMPUS, that people tended to over use the system, and I once suspected that.

I have worked in emergency rooms in both Army and Navy hospitals, and sometimes at 2 o'clock in the morning when a young mother comes in with a kid who has a temperature of 101, which isn't high for a little kid and he has had the temperature for three days and now it is 2 o'clock in the morning and she comes to the emergency room, I confess being waken up at that time of day made me sometimes irritable and feeling that the system was being abused.

But as I have thought it through and talked to many, many people over the years, I have seen it differently. If she is at Camp LeJeune, North Carolina her age is 17 and a half. Her parents are in Poughkeepsie or Des Moines or someplace. Her husband is at sea. She is at the end of her strength because she has 1.5 children—don't ask me exactly how they do that. So at 2 o'clock in the morning she throws up her hands and says, something is wrong with my baby and I am going to take him in.

She is right and she should come in. We have a responsibility to those kinds of people that is in no way comparable to the situation in civilian communities. These are our families, and even if it is greater utilization of the health care system than the money crunchers would like to see, I say we are buying something that is absolutely precious and that we morally are responsible to do.

NAVY MEDICAL CARE

Mr. Murtha. Dr. Mayer, I wish you would get that across to the Navy because I will tell you we have been fighting with the Navy for over two years, since I came back from the Persian Gulf. The people serving aboard the ships weren't worried about their hazardous duty, they were worried about their dependents being taken care of at home. The wait at the LeJeune NAVCARE was 4 to 5 hours, now it is better.

Long Beach Hospital which the Secretary of the Navy asked me to visit was a disgrace and it still is not straightened out. I think the story you told is the very thing you have to impress on the Navy. They will be here this afternoon and I am going to bring out these same points to them and see if we are making progress.

I have not seen progress being made in Long Beach where they have 55,000 active duty personnel who cannot get into that hospital. The young fellow overseas has a 17½ year-old wife who is not being taken care of adequately in the Navy. It is just outrageous to me that we haven't been able to straighten it out in 2 years.

Do we have other questions on this project?

REVIEW OF DEMONSTRATION PROJECTS

Mr. **Dicks**. In your statement you say that all three of these managed care demonstrations are a subject of very thorough evaluations being conducted for DOD by the Rand Corporation.

Dr. **Mayer**. Yes, sir.

Mr. **Dick**. What is the timing? How is this review going to work and when are we going to make a decision about whether we go with this approach?

Dr. **Mayer**. I believe that the program, the California-Hawaii demonstration, the CHAMPUS Reform Initiative should be operational for a full year before any attempt is made to do the bookkeeping kind of analysis that clearly has to be done and that will take through the fall.

And it won't be until that is done, Mr. Dicks, that we make a decision whether to go on with that program or not. The second demonstration is the fiscal intermediary demonstration of setting up preferred provider organizations throughout Georgia and Florida and requiring some second opinions before admission.

While that demonstration seems to be going very well, it should go for a year too. Rand is evaluating CHAMPUS reform concurrently and also will evaluate this program concurrently. They are not going to wait and then look back at it.

CATCHMENT AREA DEMONSTRATION PROJECTS

The third set of demonstrations are the so-called catchment area demonstrations in which essentially we go to a hospital commander and say this is how much money we spent on CHAMPUS in this area, this is what you spent on your hospital, we are going to give you the whole pot and you are going to be responsible for everybody's care.

Mr. **Murtha**. How long has that been going on?

Dr. **Mayer**. They haven't started yet. All three services have submitted plans. The last one was the Navy. It took them a long time. They will have a demonstration around Charleston. The Air Force is having one in the Phoenix area and the Army has two, one at Fort Sill and one in Fort Carson.

In any case, I directed them to submit a plan that was acceptable to us and that covered all the requirements so everyone received care. These projects should be starting within the next few months. Help from you in encouraging them to move with all deliberate speed would be greatly appreciated because we need to get on with those demonstrations.

Between the catchment area demonstration, the CHAMPUS reform demonstrations and the fiscal intermediary demonstration, we think that what will finally emerge will probably have elements of all three of those programs. I truly believe that CHAMPUS can never be allowed and will never go back to the totally unstructured chaotic stupid system that may have been fine when it was designed 25 years ago, but is not fine now.

CHAMPUS BENEFIT PACKAGE

One last point about CHAMPUS. One of the criticisms made, I don't know if it was the S&I team or the CBO, was how do you expect to save money without cutting benefits or while you are adding benefits.

Let's look at the benefits we have had to add. We are adding a demonstration on chiropractic. We have added a demonstration through congressional direction on marriage and family counseling. Over the years we have had to add benefits in the sense of letting say social workers or occupational therapists prescribe or physical therapists prescribe treatment and bill us directly.

So we haven't really expanded the benefits. We have just finished a very careful analysis of the military health benefit which is very closely comparable to the federal employees health benefit plan with approximately the same coverage. Of course, the minute you try to cut a benefit, you are faced with problems like, what do you cut, OB care or all retirees or do you charge more money.

The best thing that we could come up with, and granted there is a kind of a knee jerk resistance to any alteration of the benefit package, as there is throughout the whole American society, in spite of that, the best evaluation we could come up with is there isn't a benefit that we could legitimately cut that will save any money.

USE OF DIAGNOSIS RELATED GROUPS (DRGS)

Mr. **McDade**. Would you yield—we talked about the experimental program and the use of the DRGs. How does that work in military hospitals, the DRGs?

Dr. **Mayer**. That is a separate issue.

Mr. **McDade**. Particulary in relation to the question that you rightly pose about the difficulty of even discussing cutting benefits. We face that everyday. How does the DRG interface with that?

Dr. **Mayer**. We imposed a DRG based reimbursement system throughout CHAMPUS for hospital care. There has been almost no successful movement in the national medical community to establish a DRG system for outpatient care but it will come and we are going to lead the way. But for the moment all of CHAMPUS reimbursement for hospital care is for the first time based on DRGs which are not idential to the DRGs that the Department of Health and Human Services uses but are close.

That is going to show us an immediate $1 billion savings over the next couple of years because in the past as I say, whatever the hospital charged we paid. There was no way to audit except in spots. So DRGs have been a huge improvement in helping control CHAMPUS costs. We have been also directed by Congress to use DRGs as the primary basis for allocating resources to our military hospitals.

There we are running into some enormously complex problems because the DRGs that are used in the civilian community take into account individual patient costs. In the military, hospital costs are not accounted for in that way, they are accounted for by department, not by patient.

Second, in the military system, the majority of the costs of running a hospital are not under the control of the hospital commander. He has personnel costs which are dependent totally on what the services says he can have in the way of personnel.

He has procurement costs for major items of equipment and construction costs. All those are normally figured into DRG reimbursement but we can't do that in the military hospital. We are already beginning to use DRGs, that is a diagnosis-based, an intensity of care based system funding hospital.

The diagnosis related group holds great promise except for one caveat that I should tell you that will not endear me to my fellow physicians. Neither you nor I nor anyone can ever come up with a system that doctors can't manipulate and sooner or later we are going to work that system. It isn't done with evil intent, but back in the early days of Medicare, for sample, when an office visit was $7 and he could show that his secretary made more than that during the time he was seeing that patient and that he was taking a loss, he examined the regulations and discovered that if he did a urinalysis it was another $10 or a little longer interview, it was another $20, all of a sudden that $7 office visit was $37 and he felt justified in doing it.

So, while DRGs are very useful, they will always be subject to some manipulation, some of it innocent, some of it justified. It is like an officer's first sea report, we have to change it every few years because eventually if you get less than perfect you have to be run out and tarred and feathered.

Mr. McDADE. Thank you, Mr. Chairman.

LOSS OF MILITARY PHYSICIANS

Mr. MURTHA. Mr. Dicks is looking at your statement about the doctors that you are losing in the military system itself. We know the most efficient way of handling the dependents and the active duty is in a military hospital. You are now in demonstration projects where you are talking about getting people in under contracts.

What do you need in order to keep physicians—what pay proposals can we fund within this $13 billion? Can we come up with a proposal that may keep your physicians? I know out at Bethesda a doctor said, "I am leaving because I have to do the administrative work and I want to provide medical care. That is why I joined the Navy in the first place." I believe he was a Lieutenant Commander when his time was up.

Do we have a plan where we can, within this $13 billion, pay physicians, put people in hospitals and save enough money through doing less with CHAMPUS? We need to balance this thing out.

Dr. **Mayer**. Well, yes, we have such a plan.

PHYSICIANS BONUS PLAN

Mr. **Murtha**. We pay pilots bonuses—do we pay physicians bonuses?

Dr. **Mayer**. Yes, sir, we do and many people have thought the physician bonuses have been more than adequate or should be thought of as being more than adequate.

Just as an overview, the bonus system currently in effect was established in 1980–81, however the value of the bonus received by our physicians across the board has eroded by about 48 percent in the intervening years.

We have worked very extensively on a pay proposal, and I must give a word of caution about comparing it exactly to the kind of bonuses that we pay to pilots or the kind of bonuses we pay for certain hazardous duty. If you lose pilots because you are not paying them enough and if there is a hemorrhage of pilots out of the service, what do you do? While working on the bonuses as a way to try to attract more people in, you cut flying hours. I can't cut surgeons' hours or clinic hours so if there is an exodus particularly of primary care physicians who are excluded so far from any increase in bonus, patients are still going to be sick, they still have to be seen and they are going to go out on CHAMPUS and be seen at twice the cost.

Mr. **Murtha**. So the safety valve is the opposite of the other areas?

Dr. **Mayer**. I can't wait until there is proof that I have lost *x* number of physicians. I know we are going to lose physicians and I know we are going to pay through the nose for it. Therefore, we have worked very closely with the three Surgeons General, with the Personnel and Management Office, and OMB, in trying to come up with an equitable increased bonus system. We can do that within the funds that we have.

Mr. **Murtha**. These are doctors and nurses we are talking about?

Dr. **Mayer**. Yes, sir. We are behind with the nurses but we are working on that and we will soon have a proposal for nurses. The problem is that we can't wait until we have the hemorrhage before we start improving the pay.

Mr. **Murtha**. It seems simple to me. You know what the outside people make.

Dr. **Mayer**. We can't match that. We can't even begin to match that, but we can go a long way toward helping people make the decision to stay on duty.

NAVY MEDICAL MANPOWER

Mr. **Murtha**. You have got $13 billion you say you can't match it? The Navy is so short of personnel it is a disgrace and we can't find a way to get them in or keep them in.

Dr. **Mayer**. That is not a money issue in my judgment, that is a policy decision issue.

Mr. **Dicks**. Explain that now. Are you saying that the Navy—when they allocate their resources is just not asking for enough health care personnel?

Dr. **Mayer**. Absolutely. I don't say this to attack the Navy.

Mr. **Dicks**. Are the other services doing a better job, the Army and the Air Force?

Dr. **Mayer**. Yes, but not good enough. When we get into the policy discussion that you mentioned, I will touch on this. But the Navy over a period of years particularly as it charged ahead for a 600-ship Navy, which isn't all that big, we had more ships than that in the Leyte Gulf in World War II, but as they tried to build their Navy to that size made personnel reductions in other areas.

HEALTH CARE POLICY

This touches on the policy issue because it may seem fair to levy on everybody equally to reach a large goal. I have never sat before the Congress or even before my colleagues in the Pentagon just to plead a special case for health care, but the fact is health care is a special case.

It is now 12 percent of the gross national product. It has doubled in the last ten years. Nobody has got it under control and to ignore the fact that it is going to go on costing seemingly astonishingly and outrageous sums of money to attempt to correct that by small band aid correction proposals is never going to get it.

PHYSICIAN BONUS

It isn't working out in the civilian medical community and it can't work inside. Within our $13 billion we have enough money to pay a very decent increase in the additional pay for physicians. We are engaged in a major dispute right now with people who are expert in the bonus business. The services have paid bonuses for years for various things. They used to pay enlistment bonuses and may still. But in any case, the medical bonus issue is quite different.

If I have a pediatrician who can only make $80,000 a year in the service but on the average a pediatrician only makes $85,000 on the outside, I don't have a problem with him. But a neurosurgeon, to whom I pay $80,000, is going to make $200,000 on the outside, I can't keep. The HMO's and the hospital schemes are very aggressively seeking primary care physicians, pediatricians, general internists, family practitioners, and they will pay those people much more than I am paying them now. Even though that isn't the average that a family practitioner can make on the outside, today's market will pay a beginning practitioner $100,000 a year.

I pay a beginning practitioner $60,000 a year.

BONUS FOR ALL HEALTH CARE PROVIDERS

Mr. **Murtha**. Someone talked to us and wanted bonuses for all nurses and all doctors.

Dr. **Mayer**. That is one school of thought, and to a degree he is right. The conflict that we are involved in now is internal and from well meaning people but it has to do with nearly half of our physicians whose first priority in pay is not all that great, but who are the whole heart and soul of our medical system and who are going to be leaving in larger and larger numbers.

Even if they can't make a whole lot more—I have the figures. A gastroenterologist average civilian pay is $108,000. The highest he will get in the military is $99,000. A cardiothoracic surgeon on the outside averages $211,000 a year. It is no good to throw up our hands and say, how can they be worth it when we pay baseball players three times that. I think we need to reorder some of our value system in this country.

PHYSICIAN PAY PROPOSAL

Mr. MURTHA. Send us a proposal—is this the proposal here?

Dr. MAYER. Yes, sir.

Mr. MURTHA. This committee will work with the Armed Services Committee—if it is needed. Do you need legislation or is this something you can do yourself?

Dr. MAYER. I believe that we can do it ourselves. We have been given the money.

Mr. MURTHA. We will work with you and will try to do whatever we can to help because I thnk it is such a serious problem and we don't want it to slip back.

Dr. MAYER. I am told by my staff that we do need legislation. I keep asking them what legislation—I will communicate that.

Mr. MURTHA. We will look at it and work with the Armed Services Committee to see what we can do about it. Mr. Sabo.

ELIMINATION OF ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)

Mr. SABO. This is an observation related to what we are talking about. I heard a former Secretary of Defense who was given one of his speeches, which included congressional micro-management of DOD, and his complaint was that back in the 1970's he wanted to eliminate the position of Assistant Secretary of Defense for Health Affairs and the Congress wouldn't let him. I couldn't help but think it was another case of congresssional micro-management probably being right.

Dr. MAYER. Thank you, sir. There is a movement in the DOD right now to subordinate Health Affairs, Reserve Affairs, and Force Management and Personnel to a new Under Secretary. Now I don't care about Force Management Personnel and I don't really care that much about Reserve Affairs except as they affect me, but if you move the management of health one stop further away from the Secretary of Defense, it is a mad charge toward the mid-19th century. It is not a fringe benefits.

VA/DOD RESOURCE SHARING

Mr. MURTHA. When you see the lack of response we get now for whatever reason, we appreciate what you are saying.

In the same line before you get to the policy question, talk about the sharing of the VA and DOD resources. We think you should share whatever you can—if it saves money. But we don't want to get into a position where the Defense Department is absorbing the VA responsibility.

Dr. **Mayer**. I too support the sharing of certain kinds of resources with the Veterans Administration hospitals on a local level strictly on a negotiated basis. For instance, where one hospital has an under-used CAT scan and the other one wants a CAT scan, they should share that CAT scan. For example, in Albuquerque the VA built a hospital, brand new, with considerably more space than it turned out they actually needed. Meanwhile on adjacent property which happened to be an Air Force base we had a hospital that had to be replaced. Instead of replacing that hospital, we negotiated to staff and to use the excess space in the VA hospital. The Air Force was $20 million ahead.

The VA is getting full use of its hospital, the staffs are enriching one another but it is very clear we are a tenant in that hospital. We are about to lose the Philadelphia Naval Hospital even if the base closure recommendations aren't accepted; we cannot support continued use of a hospital where when I interned there were 5,000 patients and now there are 30. That is waste.

Up the road 4 miles is a brand new VA hospital being built which is closely aligned with the University of Pennsylvania Medical School. Superb. They will have space. If I can get 50 or 60 beds in that hospital, have the Navy staff them and this is going to be a Navy operation, then we have entered into an agreement with the VA that is beneficial and I want to see that continue.

I think that Mr. Montgomery's bill that there should be a sharing was excellent. Now I hear that one of the Veterans organizations advocates the merging at least regionally the VA and DOD medical systems. It is based on certain wrong assumptions in my judgment.

One is that there are large elements of the DOD medical system that are somehow under utilized or just lying around. That is not true. Our average hospital is over 40 years old. They should be replaced when they are 25. Some of our hospitals are over a 100 years old. When we are not using space in one of our hospitals it is because we don't have the staff, especially the support staff.

The Veterans Administration hospitals, especially those 95 hospitals out of their 172 that have formal active affiliations with major American medical schools, are superb. But the fact is the DOD has an overriding continuous dual mission, be ready to go at the drop of a hat anyplace and have enough doctors and nurses and corpsmen there to take care of our troops.

And second, as part of what we owe to those who volunteer to serve in our Armed Forces, is an ongoing everyday first priority care system for the dependents and for those of our retired members who earned it through many years of service and often bad injuries.

I do not believe that we should attempt to merge the management of the VA highly decentralized system of 172 hospitals with the military health care system. I can't even successfully merge the activities, at least not all of them, of the three Armed Forces, let alone superimpose the Veterans Administration.

I believe that it would erode our ability to perform our military mission. I want to go on sharing with the VA, I don't want to buy two CAT scans when one will do. I think it would be a terrible mistake and it is a proposal of people who are well intended, but who are misinformed.

INTEGRATION OF DOD MEDICAL PROGRAMS

Mr. **Murtha**. If you would then talk about the policy problem, because what concerns me the most is I not only have to go to you when we find a problem with a Navy or Army hospital, we have to then go to the Surgeon General of the individual service. I realize each of them has a different mission and different problems.

Dr. **Mayer**. Yes, sir.

Mr. **Murtha**. But talk about the policy and any suggestions—you have been in this job a long time—which might help provide better services.

Dr. **Mayer**. I will do that and I will be totally honest. It would appear I have very little to lose.

When I first was invited by Mr. Weinberger to come to the DOD which was actually 7 years ago, I came—not quite 6 years ago, one of the principal concerns at that time was whether or not there should be established a defense health agency patterned roughly on the Defense Logistics Agency, the Defense Intelligence Agency and so on.

A very carefully wrought plan proposed putting together under a new administrative structure and a new layer of the bureaucracy all peacetime health care services of the Armed Forces. Under single management, a 4-star general would report to the assistant secretary who would run this whole system, and it was not a new proposal. The first such proposal was made by Dwight David Eisenhower.

I spent 10 years in the Navy and Marine Corps, ten years in the Army and almost 10 years in the Public Health Service and I have a great understanding of the special relationship that Navy medicine has to the Navy, and I think it is actually beginning to emerge from under its rock but it is going to take an awful lot of help. It does have people in charge who are really determined to make it work.

Secretary Weinberger asked me to study this proposal which I did in great detail. He wanted me to lead a movement into a defense health agency. I said I didn't want to be the point man in a battle that you can't win even if it is legally possible for you to do it, even if it is feasible and doable, it will cause so much turmoil that for a couple of years minimum it will damage the very people you are trying to help, the patients. There will be so much consternation and so much resistance and there are so many ways to do the resistance that I didn't think it would work for several years and I didn't think that what you have gotten would be that valuable. That is the first point.

The second point is that I believe, and I continue to believe to this day, that there is sufficient talent, resources, facilities, skill, and inspiration among the people wearing the uniforms of all three of the Armed Forces that we can successfully put together those parts of the system that clearly have to be put together without forcing them artificially into a new organization.

What are those things that should be forced to go? No. 1, the quality of care and the standards of quality should be absolutely identical. It doesn't matter whether you are an Air Force dependent or a Marine Corps dependent if you are sick, you should get exactly the same standard of care.

No. 2, the construction programs of the medical services in the Armed Forces, should be rational. They weren't rational. Every service has its own constituency on the Hill and its own advocates. Most of them have military facilities in their districts and it is perfectly natural that they want to see those military facilities flourish.

They represent a lot of money, a lot of civilian employment, a lot of income into the county or into the state so these constituencies are fairly strong. But a fourth of all Americans connected with the Armed Forces are overseas. There are no congressional constituencies overseas, there are no Senators and no Congressmen who care a bit from a personal standpoint of "my district" whether I fix up the hospital at Naples or whether I don't.

So, what we were seeing worldwide were terrible inconsistencies, we saw a population of 6,000 Air Force people near Madrid with a 50-bed hospital and 25 doctors. We saw the same size population of Americans in Sicily with three beds and five doctors.

I saw a hospital at Naples that supports 9,000 people ashore and 15,000 afloat which is falling down. Also, it is built on the side of an active volcano. So the second thing was construction.

Third, was a departure from the absurd system in which the Navy bought its drugs one way, the Army another way, and the Air Force another way, and they all sent them overseas separately. So there needed to be a single logistical system.

Finally, in planning to go to war there is a plan for Europe and a plan for the Far East and there is a medical annex for that plan. The Army had an Army medical annex, the Navy had a Navy medical annex, and the Air Force had an Air Force medical annex. They stapled them together, and that is the medical plan for Europe. That is crazy.

Just plain common sense indicates that they are going to do absurd things like the Air Force had in its plan that they were going to shut Weisbaden down the minute war starts and pull back. They Army said they are going to get the people to Weisbaden. When we were looking at the Delaware Valley, everything from Fort Monmouth down to Fort Dix, including Philadelphia, we found that the Navy was going to home port ships at Early, New Jersey, ten miles away from a fine hospital not totally utilized at Fort Monmouth. The Army was planning to close Fort Monmouth and unbeknownst to the Army the Navy was planning to use Fort Monmouth. This is too big a system with 168 hospitals and about 1,000 medical facilities, and too complicated to have a huge pile of plans which aren't coordinated.

So, we now have a command surgeon in Europe who has cognizance over all service medical activities. He doesn't try to run it day to day, but if the Achilles Lauro gets attacked or an airplane gets hijacked he can pull from any service with the authority of the Commander in Chief and send teams to where they are needed and do it right away.

It is a better system than we have in the U.S. We have put into place a Pacific command surgeon and that is a great leap forward. So I am saying that we can do some of the things that simple common sense demands that we do.

Mr. **Dicks**. Have we done that in the U.S.?

Dr. **Mayer**. We are talking about it. There is much more resistance to doing it in the United States than there is overseas partly because overseas is oriented toward going to war. Here we are oriented toward maintaining the status quo, to a certain extent a pork barrel system where we are stuck with facilities that historically have always been there.

They are not where we would put them if we designed them today. Look at Washington, D.C.—here we have a huge beautiful multi-hundred million dollar hospital at Walter Reed. We have a not quite as huge but beautiful, also several hundred million dollar hospital at Bethesda. We have a 350-bed or bigger hospital at Andrews Air Force Base. We have a hospital at Fort Belvoir, we have a hospital at Fort Meade, and there is no kind of medical plan for the District of Columbia and environs. There is no organized way to distribute patients to where the talent is. If you run out of cardiothoracic surgeons in the Navy hospital even though they have plenty at the Army hospital, you hire somebody without the right background and skills.

Mr. **Murtha**. Why don't you do the same thing you are doing in California or Hawaii?

Dr. **Mayer**. That is CHAMPUS. To a certain extent that kind of managed care program ought to be attainable anyplace where we have multiple military medical facilities. I did start such a joint medical command in San Antonio and I have never encountered such bloody and in many cases infantile stupid resistance as from the retired population in San Antonio, Texas, when I tried to put together the functions and the medical education programs of two great hospitals, Brooke Army Medical Center and Wilford Hall Air Force Medical Center. Had I not established a joint command there we would have lost the accreditation of some of our graduate medical education programs that exist there, but by combining them they have grown and flourished.

Nonetheless, the resistance to doing anything like that, the idea that an Army retiree could be forced to go to an Air Force hospital or vice versa, the political power that was brought to bear, the intense emotionalism without a rational basis absolutely was astounding. Nonetheless, we did it. We have established simply a joint medical command in San Francisco. Thank God, because the base closure commission wants to close the biggest and best hospital we have out there and they are going to do it. That is Letterman.

LETTERMAN ARMY MEDICAL CENTER

At Letterman Army Medical Center we have 16 graduate medical education training programs and I hasten to add we have to train our own specialists. We train them by civilian standards but if we don't train them we can't get them because I can't hire them. There are 160 to 180 residents at Letterman and we can't automaticaly absorb those at Oak Knoll. Additionally both hospitals are sitting on earthquake faults. But before I go charging in to building another hospital, what should it be, Army, Navy, joint? At least now we hae a joint medical structure involved.

JOINT MEDICAL PROGRAMS

Mr. **Dicks**. Have you ever built a joint medical hospital?

Dr. **Mayer**. Never. Trippler almost was one when it was first started and it served as a joint hospital, but Trippler is an Army medical center. So it is possible that in San Francisco, in ten years or so there will be one hospital, neither Oak Knoll or Letterman. Of course, I don't know that, but at least by having a joint command we are not going to have an Earl, New Jersey problem. We have a joint organization in the Delaware Valley wherein we have essentially required the three services to communicate continuously to make plans for what they are going to do when Philadelphia closes, how they are going to take care of the patients that now go to Fort Dix when Fort Dix is put into a very reduced operational status.

Each of those things has been fairly seriously opposed by the services and certainly by some of their constituents, which illustrates something very important. We can do some of the consolidations, the single logistical system for Europe, the joint planning for Europe and the joint planning in the Far East, the joint operations in Texas. But we will never successfully run the system without a much closer management of the whole array of facilities.

As I have said before this and other committees in the past and I will continue to say it, if you don't control the money, you don't control anything.

Mr. **Murtha**. So you might have the authority, but you don't control the money. You really can't control what happens. You can't tell the Navy to do it and they will do it, do you even decide where the resources go?

Dr. **Mayer**. Yes, we do with respect to military construction, but that is three percent of the total health care budget.

HOSPITAL CONSTRUCTION-NAPLES, ITALY

Mr. **Murtha**. You said the Naples hospital is in bad shape and there should be a new one. Did you ever request a hospital?

Dr. **Mayer**. Absolutely.

Mr. **Murtha**. Where did it die?

Dr. **Mayer**. There wasn't any money.

Mr. **Murtha**. Did it die in OMB or——

Dr. **Mayer**. Not really.

Mr. **Murtha**. Did they make the request to Congress for a hospital at Naples?

Dr. **Mayer**. Yes.

Mr. **Murtha**. You are telling me the Congress killed it?

Dr. **Mayer**. The Navy wanted a hospital, but they also wanted to move the whole headquarters. They did find a piece of property at a place called Padua Spartacus. But the people that own the property that we rent from the Italians now hired a powerful lobbying firm in this country to prevent acquisition of that property.

The Navy had made a somewhat good faith effort to replace the hospital at Naples, it just hasn't been satisfactory.

Mr. **Murtha**. Who did this lobbying? It wasn't this committee.

Dr. **Mayer**. No, but they lobbied Members of Congress who could approve acquisition of this property in Italy. But that is just one instance.

Mr. **Murtha**. Mr. Dicks.

NURSE/STAFF SHORTAGE

Mr. **Dicks**. My impression is you have tried very hard to do a good job and I think a lot of these initiatives are going to be very beneficial. We appreciate your efforts.

Let me ask about the nurses. What is the shortage of nurses overall within DOD compared with the stated requirements?

Dr. **Mayer**. Compared to stated requirements as reflected in authorized space, we are fine. We have all the nurses—practically all the nurses we are authorized. The problem is the authorization is crazy.

Mr. **Dicks**. They are way too low?

Dr. **Mayer**. Absolutely.

Mr. **Dicks**. How much too low are they?

Dr. **Mayer**. I would say at least ten to 15 percent.

Mr. **Dicks**. What is the shortage of other ancillary percentage?

Dr. **Mayer**. The shortage includes the many more technicians we need today to run the CAT scans, the lithotripters, the nuclear medicine department. A huge shortage of the people who simply keep records.

Mr. **Murtha**. Have you requested additional personnel?

Dr. **Mayer**. That is something that is done within the Services.

Mr. **Murtha**. That is what I mean. We don't see the request. You are short people, you can't provide the services in some hospitals and yet we don't get a request for people because a policy decision is made over there someplace, so we never get the request.

Mr. **Dicks**. That is right. In fact, this committee has added money to hire people——

Mr. **Murtha**. They never hired them.

Mr. **Dicks**. Each of the Services is pursuing a number of initiatives to improve the nurse situation in terms of recruitment and retention. What coordination is your office providing for these efforts?

Dr. **Mayer**. I an not sure what you mean by coordination. We have encouraged those efforts. We have argued before the higher levels of policy decision makers in the Pentagon that we need to increase the entire medical authorization strength. We don't practice medicine the same way as we did when those authorizations were invented, 20 years ago.

Mr. **Dicks**. As I understand it, there is a shortage in the country of nurses.

Dr. **Mayer**. Yes, 11 or 12 percent.

Mr. **Dicks**. Is there a shortage of doctors as well? Are there plenty of doctors out there but it is the cost of recruitment that is the problem? We are told that one of the reasons that they can't get the nurses is because there is a shortage of nurses in the overall general market.

Dr. **Mayer**. That is part of the problem, yes.

Mr. **Dicks**. Is that true with doctors?

Dr. **Mayer**. No.

Mr. **Dicks**. One potential step is to provide the Secretary of Defense with the same authority granted to the Administrator of Veterans Affairs for establishing special pay for positions cited to be in shortage. This committee included a provision for such authority last year but it was deleted on a point of order on the House floor. What benefit would such authority provide in meeting your shortages in critical skills, including nursing?

Dr. **Mayer**. For those specialties in both medicine and nursing that are demonstrably in short supply, then the authority of the Secretary to pay additional special pay to such people would be an inducement to stay on duty. Incentive special pay has not been extended to nurses in the past, and we have a pay study group that is under my office, which will come up with proposals to increase nurse's pay in those specialties that we need.

Mr. **Dicks**. Can you do that for civilian nurses as well; for civilian personnel as well?

Dr. **Mayer**. No, sir.

Mr. **Dicks**. Would that authority be helpful in areas where we have shortages?

Dr. **Mayer**. Yes, it would be helpful, but like all such things, it is a two-edged sword.

Mr. **Dicks**. At Madigan, I met with the nurses. They are very mad. They say that what they did is we added money which they admit they needed, then we hired contract people off the registry. These people come in, they get the preferred hours, they get more money, and it has created an enormous personnel problem, turmoil, because these people are getting a lot more money than the civilian or the uniformed personnel that work for the Services.

Now, their argument is what we ought to do is do something for the civilians and the military people that would therefore allow you to attract more people into the Services so you won't have to use this outside registry that they claim is enormously expensive.

Dr. **Mayer**. What those people fail to understand is that even if we did that under the current system with only a certain number authorized, we wouldn't get any more nurses. We have all we are allowed to have now. That is why I say the authorizations have to be increased.

Mr. **Dicks**. Then would you be able to get the people?

Dr. **Mayer**. Not without paying them more. What you described is exactly the same problem we have with doctors. We are getting doctors coming in under the partnership program, civilian doctors who are making far more and only working an eight hour shift or less than the doctor in uniform, who is doing the same thing. In fact, it may be a colleague who has left the Service and is hired by a contractor and comes back.

When we bring nurses in, for example at Walter Reed, a couple of years ago the commander came to me and said, "I have to have authority to pay civilian nurses $30 an hour or I am going to have to close two of my wards, and I have established that unless I can pay $30 an hour I can't get enough nurses to keep two of these wards open."

Now, our own nurses were working 12 hour shifts at a tiny fraction of $30 an hour.

Mr. **Dicks**. That is why these people are mad.

Dr. **Mayer**. Sure they are mad. Wouldn't you be?

Mr. **Dicks**. Absolutely. How do we get this straightened out?

COMMAND SUPPORT

Mr. **Murtha**. More people, which you folks won't ask for. You ask for it and DOD never sends it over to us. In the Navy they commissioned a Blue Ribbon Panel study. I figured out in a couple of hours what the problem was, but the Navy needed a study. They took a flag study and said the same thing that we figured out in this committee a lot earlier. In my mind, you have to have more people and you have to ask for them, and you have to have a command interest in it.

In other words, if the people in charge are not interested in it, you are going to ask for it and nothing is going to happen. That is the problem. That is exactly the thing that Mr. Dicks is asking about that is not going to be solved until we get command interest in the Medical Services.

Dr. **Mayer**. To the best of my knowledge--but I have to say that the line has been more supportive of the Medical Services in all the Services than they have been of any other part of their Service. Our end strength has grown a little faster than the rest, our budgets have increased a little more, but they have a kind of a naive belief that that ought to be enough. It is not enough.

CONTRACTING FOR CARE

Mr. **Dicks**. The other problem here is a fundamental ideological problem. There has been a belief by this Administration and the previous Administration—maybe it is too early to judge this Administration, but clearly by the previous Administration, and I think by President Carter as well—that somehow contracting out this work is going to save the taxpayers a lot of money. I think we have in this situation an absolute indication that that is not true, that the statistics provide that we would do better by paying a little more and attracting and keeping good health care personnel in the Services.

This idea that we are going to pay our people less, work them twice as hard, and then contract out to get people to come in and do it is crazy. It is unfair to those people, in the Federal service. It has to create an enormous morale problem. How do we get this changed? You are supposed to be the guy who is telling us, this committee, this isn't going to work and you better change it. I haven't seen any proposal on this one. I love all your other things but where is the reform proposal on this one?

PERSONNEL CEILINGS

Dr. **Mayer**. The problem is the personnel ceilings overall.

Mr. **Dicks**. I understand that, and no one has worked harder to remove all these personnel ceilings, because they create this kind of management distortion, than I have. I have fought every single year to take those ceilings off. I think you should exempt health care and say no manpower and personnel ceilings on health care no matter what you do.

Just as you said, health care, you can't do it 85 percent of the way, and that is what they are doing. They are doing it 85 percent of the way. They put it up to 86 percent and say we are doing a great job. They are not doing a great job and they have all these personnel problems because of it. Until we correct that problem, I think we are just stalling.

Dr. MAYER. In line with what you said, a couple of years ago I talked to Bernie Rogers, who was the Commander in Europe, and I said, "Bernie, I have got to have more authorization in Europe for medical personnel."

He said, "Bud, I agree with you 100 percent. Who do you want me to send home, tankers, airplane pilots?" That is the dilemma.

So, unless medical strength is exempted from the congressionally mandated ceilings on the Armed Forces, we will continue playing catch-up indefinitely at, as you point out, a far higher cost.

Mr. MURTHA. Dr. Mayer, thank you very much. We appreciate the problems you are having and it has been frustrating for you, and for us, the last couple of years in particular. I am glad to hear the Navy is making progress. We are going to talk to the Navy this afternoon and we will send a letter asking the House Armed Services Committee to review your testimony. Have you been before the Armed Services Committee this year?

Dr. MAYER. Not yet.

Mr. MURTHA. We are going to ask them to review your testimony so when they talk to you, they will be able to ask the same type of questions. We will make recommendations about the level of people and about what needs to be done to give you some flexibility in hiring more people.

The bonus plans have always done a little bit to serve the country. We think you don't need the bonuses but obviously if you can't get people, you are going to have to pay them more, especially doctors. As you said, the safety value is CHAMPUS, which costs more. We have to operate this more efficiently and we are not helping with personnel ceilings and reductions to your flexibility.

We appreciate your appearance before the Committee.

Dr. MAYER. It has been a real privilege, sir. I thank you once again.

Mr. MURTHA. We thank you very much. Mr. Dicks, Mr. AuCoin, and Mr. Livingston have additional questions for the record.

The Committee will adjourn until 1:30 p.m.

[CLERK'S NOTE.—Questions submitted by Mr. Dicks and the answers thereto follow:]

QUALITY OF HEALTH CARE

Question. Dr. Mayer, your statement notes that the External Peer Review Program is confirming that the quality of health care in military hospitals is high and that the Journal of the American Medical Association reported that fewer than 1 percent of all reviewed cases to date fail to meet the stated standards and criteria established by the external medical review panels. As you know, I have had real concerns with respect to quality of care at military facilities. To what factors do you attribute this improvement?

Answer. First, I am compelled to say that I believe our dedicated providers have always given quality care. Some of the perceived "improvement" relates now to documentation better capable of supporting such a conclusion. The Civilian External Peer Review Program has assisted all of us greatly in this regard.

In addition, major changes have been implemented which have actually resulted in improvement of quality in the care delivered. These factors include and extensive credentials verification process, the requirement that our health care providers maintain a valid state license, refined monitoring and evaluation procedures at the local level, greatly enhanced reporting requirements that enable us to perform trends analyses, the Civilian External Peer Review Program, and automation initiatives perhaps best symbolized by the Automated Quality of Care Evaluation Support System (AQCESS) and the Composite Health Care System (CHCS) projects. Improvements in care have also been achieved by enhancement of care options through resource sharing agreements, and by the ongoing educational efforts related to health care and health maintenance programs.

All these are among the changes and initiatives which I believe have been necessary and desirable. Early favorable impressions suggest that substantial progress has been made in refining the management of patient care within the military health care system.

Question. When it is necessary to make difficult choices between the number of people who can have access to military health care facilities and practical limits on available practitioners, how are those decisions made? Is this a change from the past?

Answer. Such difficult decisions have been made with great care at the local level after assessment of available resources, clinical need, and mission requirements. Prioritization of beneficiary care starts, as mandated, with active duty personnel, then continues to their dependents, and is completed with the dependents of retired personnel. More recently, regional and higher-level command supervision of such decisions is evolving to enhance the existence and consideration of alternate care options and to initiate and support the resource sharing and other management arrangements which make such options possible. This latter aspect does, in my opinion, represent a significant and desirable change from past experience.

Question. The human tragedy from low quality medical care of course must be the focus of efforts in this area. But there is also a very real financial cost in high malpractice suit awards. Do you have any feel on the general trend in this area, in terms of numbers of suits filed and awards made? Please provide for the record details on these figures.

Answer. The DOD trend in terms of the number of malpractice suits filed and awards made is similar to trends noticed throughout the health care industry. That is, the number of claims filed has declined slowly since 1985 but the total amount paid has increased steadily. Details for the record include:

[Dollar amounts in millions]

Year paid	Number of new claims	Amount
1982	689	$29.0
1983	833	39.0
1984	854	47.8
1985	930	62.5
1986	895	62.1
1987	876	67.6

DOD trend figures compare favorably with at least one civilian comparison figure. The combined DOD rate of 1987 claims filed per 100 physicians was 6.6. In a 1988 Annual report to Policyholders, St. Paul's Fire and Marine Insurance Company, which provides malpractice insurance to approximately 19 percent of the civilian physicians, reported that "the frequency of claims reported against St. Paul insured doctors country wide continued to decrease in 1987, declining from 17 claims per 100 doctors in 1986 to 15.4 claims per 100 doctors in 1987." Further, in 1987, $68,000,000 was paid for 335 DOD malpractice claims. This figure approximates $202,985 per closed paid claim. St. Paul's 1987 figures are incomplete, but its 1986 medical liability verdicts, which number 269, averaged $1,478,028.

Last year DOD initiated a Risk Management Program that involves the abstracting of medical and legal information from closed malpractice claims. The 1988 data are incomplete; however, from our current sample of 186 claims, we have learned that nearly 53 percent of the closed claims were denied, 20 percent were administratively settled, and 27 percent were litigated. The majority—48.9 percent—of denied claims were found to be without merit.

CHAMPUS COSTS

Question. You testify that CHAMPUS accounts for over one third of the total admissions and over one fourth of the total outpatient visits, at a cost of $2.6 billion. What are the costs to the Department of the in-house system, and how do they compare on an apples to apples basis per admission and outpatient visit?

[CLERK'S NOTE.—The Department was unable to provide a response in time to be printed in this hearing volume.]

Question. Do you have a calculation for out of pocket costs incurred by beneficiaries under CHAMPUS per year?

Answer.

PROVIDER PARTICIPATION RATES

[Based on claims processed]

	Fiscal year—		
	1987	1988	1989
INP	70.4	75.4	No data.
OUTP	65.0	69.9	Do.

Out of pocket expenses for all categories of beneficiaries:

CHAMPUS authorized care only—fiscal year 1987 data based on care received/24-month collection, fiscal year 1988 data does not include CRI states.

1. No Other Health Insurance:

Fiscal year 1987, 393,788,988—12.7 percent.

Fiscal year 1988, 390,009,716—12.0 percent—80 percent completion factor.

2. Including Other Health Insurance:

Fiscal year 1987, 925,558,823—30.3 percent.

Fiscal year 1988, 768,699,310—24.0 percent—68 percent completion factor.

Question. Your testimony notes that prior to 1987 CHAMPUS costs were increasing by 25 percent per year but that between 1987 and 1988 the rate of growth was reduced to 6 percent. Was this entirely due to payment reforms? What limitations have the use of fixed rates produced on participation in the CHAMPUS progam in the medical community, and how has that impacted access for the beneficiary population?

Answer. For the most part, with the possible minor exeptions of ongoing demonstration projects, the signifiant decrease in the rate of growth of the CHAMPUS progam is attributable to the payment reforms which have been instituted. At this time, it is believed that the application of fixed rates has had negligible impact on participation in the CHAMPUS progam in the medical community. In view of the fact that inpatient rates alone are affected at this time, access for the beneficiary population has not been an issue.

[CLERK'S NOTE.—End of questions submitted by Mr. Dicks. Questions submitted by Mr. AuCoin and the answers thereto follow:]

CHAMPUS CHOICE

Question. The Department of Defense has announced that as of October 1, Kaiser Permanente, of Portland, Oregon, will no longer provide the CHAMPUS Choice program for active duty dependents, retirees and their dependents. It is my understanding that the beneficiaries of this demonstration program were very pleased with it. Mr. Secretary, I've heard that the Department of Defense did not believe the program to be cost-effective. Is that so? Also, please explain for me any other reasons for discontinuing this program and how the Department of Defense will provide health benefits to the people who will be missing the benefits of this program.

Answer. The CHAMPUS Choice demonstration in Portland began eight years ago in 1981. As a result of a recent evaluation of the project in December 1988, I determined that the program costs the government in benefits and administrative costs approximately $400,000 more per year than the basic CHAMPUS program. The current contract expires in September, 1989 and while the beneficiaries have expressed satisfaction with the program, I am not proceeding with the reprocurement. The evaluation is complete; the project costs money. I am making a special effort to inform beneficiaries and help them transition back to the standard CHAMPUS program. I also understand that Kaiser Permanente, the contractor for Portland CHAMPUS Choice, is offering a transition plan to another of its HMO plans for DOD beneficiaries who are currently Choice participators.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin. Questions submitted by Mr. Livingston and the answers thereto follow:]

NEW ORLEANS CHAMPUS DEMONSTRATION PROJECT

Question. Mr. Secretary, I understand you had two proposals submitted on the New Orleans CHAMPUS demonstration project. I hope these are competitive, strong proposals. What is your initial reading?

Is the Department still serious about moving ahead with this demonstration?

Answer. As you know, the original CHAMPUS Reform Initiative procurement included the New Orleans region; however, of the two bids received for the region, one withdrew. The other bid went through a thorough evaluation process with other CRI evaluation activities. This lasted 6 months. At the conclusion of the evaluation however, the evaluated bid did not reach the government's competitive range. Pursuant to further Congressional direction, another procurement for health care services in New Orleans began in the fall of 1988 with features similar to CRI. Proposals were requested September 1, 1988. After two extensions requested by potential bidders, the proposal period closed February 13, 1989. To comment beyond this would be inappropriate, as all information relative to the content of proposals is considered procurement sensitive.

The proposals received are in the process of evaluation. Evaluation is expected to take about 70 days. A potential award could occur in May, 1989 with start of services about November 1, 1989.

CHAMPUS CHIROPRACTIC DEMONSTRATION PROJECT

Question. Several years ago the Authorization Committees directed the department to conduct a 2-year demonstration project within CHAMPUS to test chiropractic services for efficiency and cost effectiveness in relation to current services covered by CHAMPUS. Has this demonstration finally been implemented? If so, when? If not, why?

Describe for the record the details of this demonstration, including the complete schedule, demonstration states and parameters of the study.

Answer. The Chiropractic Care Demonstration Project will test the hypothesis: "That chiropractic care is as efficient and effective a method of delivery of care as allopathic or osteopathic medicine, for certain conditions." CHAMPUS will conduct this 2-year demonstration project in the states of Colorado and Washington beginning in July 1989.

All chiropractors practicing in Colorado and Washington will be invited by OCHAMPUS, through its Fiscal Intermediary, to become participating providers. Each chiropractor will agree to accept CHAMPUS assignment for all claims submitted on behalf of participating beneficiaries for authorized chiropractic care provided under the demonstration. Authorized care includes spinal manipulation and required diagnostic radiographs in the state of Washington. In Colorado, authorized outpatient chiropractic care includes spinal manipulation, diagnostic radiographs and adjunctive physiotherapy. All care provide under the demonstration is subject to periodic review by a Utilization Review Panel.

Beneficiaries promise to pay the chiropractor for all care received not covered under the demonstration, provide release of medical information for the evaluation of the demonstration and acknowledge the requirement to pay the deductible and copayment for all care.

Evaluation is based on data from three population samples: beneficiaries who use only a chiropractor; beneficiaries who use a traditional physician as well as chiropractor; and beneficiaries who use only an allopath and/or an osteopath for certain conditions. The analysis will be based on care received under CHAMPUS.

The final evaluation report is projected to be completed by March 1, 1991, with an interim report due on March 1, 1990.

AUTHORIZED TREATMENTS/MEDICAL PROFESSIONS

Question. Provide (in detail) the authorized services or treatments, including a list of medical professions, that currently qualify for any payments or reimbursements under CHAMPUS.

Answer. Generally, CHAMPUS covers most health care that is medically necessary, to include most doctor bills for inpatient and outpatient care, most hospital bills, diagnostic tests and treatment, medical supplies, residential treatment centers for emotionally disturbed children, drug abuse, alcohol detoxification and rehabilitation centers, AIDS medication, ambulance service, maternity and newborn care, mental health, organ transplants, prescription drugs, ambulatory surgery, hairpieces for radiation-chemotherapy treatment patients, and limited dental care.

The following are those medical professions currently qualified for payment or reimbursement under CHAMPUS.

Qualified are: a doctor or other individual authorized provider of care, a hospital, or supplier approved by CHAMPUS to provide medical care and supplies. The provider must be licensed by the state, accredited by a national organization or meet other standards of the medical community. Physicians, dentists, clinical psychologists, podiatrists, certified nurse midwives, Christian Science practitioners and nurses, certified clinical social workers, certified nurse practitioners, certified psychiatric nurse specialists, optometrists, home health care agencies, independent laboratories, radiology services, pharmacies, ambulance companies, medical equipment and supply firms, registered nurses, licensed practical nurses, licensed vocational nurses, physical therapists, marriage and family therapists, mental health counselors, audiologists and speech therapists are authorized providers.

IMPACT OF MEDICARE CATASTROPHIC LIMIT

Question. Provide a brief description of the impact of the Medicare Catastrophic Protection Act (P.L 100-360) on military beneficiaries and their dependents, active and retired. How does this compare to the Federal civilian population and their dependents, both active and retired?

Answer. When most CHAMPUS beneficiaries become entitled to Medicare hospital benefits under Part A, the law pertaining to CHAMPUS (specifically, section 1086(c) of title 10, USC) specifies that they lose their eligibility for CHAMPUS. The exceptions to losing CHAMPUS eligibility are dependents of active duty members, a very few of who become entitled to Medicare because of disability or end-stage renal disease. For them, CHAMPUS eligibility continues with CHAMPUS as secondary payer to Medicare. Because so few are invoved, the impact of the Medicare catastrophic benefits is negligible.

CHAMPUS has its own protection for eligible families which began on October 1, 1987. The cap on covered medical bills for care in each fiscal year is $1,000 for active duty families, and $10,000 for all other CHAMPUS-eligible and all CHAMPVA-eligible families. The cap applies to the amount of money required to meet the family's annual deductibles and cost-share based on CHAMPUS allowable charges for covered medical care received in any 1 fiscal year.

CATASTROPHIC SURTAX ON FEDERAL PENSIONS

Question. Explain the applicability, if any, of the Catastrophic surtax on Federal civilian retiree pensions as compared to military pensions.

Answer. The Medicare Catastrophic health care benefit is funded by a supplemental premium or surtax—Internal Revenue Code section 59B—that is based on income tax liability. Subsection (f)(4)(A) and (C) permit certain governmental retirees to reduce the supplemental premium to reflect the fact that many Federal retirees receive a fully taxable pension rather than a taxable pension supplemented by nontaxable Social Security benefits.

As enacted, the reduction available to Federal civilian retirees cannot be claimed by military retirees. This result was intended by the Congress, since military service became covered employment for Social Security purposes effective January 1, 1956, by the Servicemen's and Veterans' Survivors Benefit Act, Pub. L. No. 881, C. 837; 70 Stat. 857. Although there are currently over 10,000 military retirees receiving taxable retired pay who retired prior to 1956, many are likely to have accumulated sufficient Social Security covered earnings to eliminate the governmental retiree exclusion or are among those eligible for reduction due to governmental employment after retirement from military service.

Question. Last year this Committee's conference report endorsed a physicians assistant direct reimbursement demonstration project under CHAMPUS. What is the Department's schedule and plan for implementing this demonstration?

[CLERK'S NOTE.—The Department was unable to provide a response in time to be printed in this hearing volume.]

COPAYMENT FOR MEDICAL CARE

Question. Does the Department's—or the Bush Administration's—fiscal year 1990 budget include plans to implement a pilot program or some type of demonstration to introduce copayments in the provision of health care to nonactive duty beneficiaries? Provide details about this proposal.

Answer. The fiscal year 1990/1991 President's Budget currently before the Congress proposes a 2-year pilot program to introduce copayments in the provision of health care to nonactive duty beneficiaries in several geographic areas. Copayments are to be consistent with those required in other federal programs including Veterans Administration programs. Families of junior enlisted personnel would be exempt. The budget calls for establishment of an Advisory Panel whose membes will include medical experts from outside the government. The panel is to make recommendations on the design of the pilot program.

[CLERK'S NOTE.—End of questions submitted by Mr. Livingston. Questions submitted for the record and the answers thereto follow:]

BASE CLOSURE AND REALIGNMENT

Question. Dr. Mayer, the Report of the Secretary's Commission on Base Closure and Realignment recommended a few military hospitals for closure or realignment.

Ft. Dix, New Jersey: Realignment of Ft. Dix includes a review to determine whether Walson Army Hospital should be retained or downgraded to a clinic.

The Presidio of San Francisco, California: Closure of the Presidio includes the closing of Letterman Army Medical Center.

Naval Hospital Philadelphia, Pennsylvania: Closure of the hospital.

Mather Air Force Base, California: Closure of Mather AFB includes medical and dental facilities.

Based on these closures and realignments, are you working with the Services to determine the best way to provide alternative care for retirees in the affected areas?

Answer. The Secretary of Defense has accepted the recommendations of the Commission. My office is now working to accommodate the health care requirements created by the closed and realigned missions. Several options are being evaluated to determined the most cost effective manner to satisfy the health care requirements of the retiree catchment area population. Retirees and their dependents will be directed to the nearest military medical facility where space available care can be provided or to another DOD managed program. However, in those areas where a military hospital closes, it is likely that the retiree's principle source of care will be through the CHAMPUS program or Medicare.

Question. Are you working with the Services to redistribute the medical equipment and staffing to provide more efficient use of these assets in other facilities?

Answer. My office is actively working with the Services to assess the effects of the closed and realigned bases on medical care and the health care assets of the Military Medical Departments. Where economically feasible, medical equipment will be removed to enhance the capabilities of the impacted installations. Medical manpower not identified as part of the savings from closing an installation will be reallocated to other medical facilities impacted by realignment. This action will accommodate increased workload from these realignments or recapture CHAMPUS workload.

VA/DOD RESOURCE SHARING PROGRAM

Question. Dr. Mayer, the Department has approximately 140 agreements with the Veterans Administration. DOD pays the VA for supplying over 1,500 services from surgical care to pediatrics.

These agreements are developed at the local level and allow the hospital commander to contract with a local VA hospital to provide care that cannot be provided in the military facility.

In fiscal year 1989, the House Armed Services Committee directed DOD to start using CHAMPUS funds to increase the number of sharing agreements, anticipating that this action would reduce CHAMPUS costs. The Senate Armed Services Committee and this Committee did not agree to that approach due to the inability to audit these agreements and the uncertainty of the impact on a military hospital's efficiency.

We have the administration's position based on an OMB response to GAO, but we would like your personal opinion on these sharing agreements. Please share your opinion with us.

Answer. As you know, I have supported the GAO suggestion that CHAMPUS funds be used to pay for care at VA facilities where it would be cost effective to do so. At the request of Congress, the Department of Defense has developed a plan for entering into a VA/DOD Sharing Agreement governing the potential use of CHAMPUS funds to reimburse the VA for care provided CHAMPUS beneficiaries. The Plan is presently at OMB for review. I have studied the issues raised by the Congress and OMB in regard to the GAO recommendations and have formulated the CHAMPUS Plan with their concerns in mind. It is my personal opinion that the Plan has sufficient controls to meet Congressional and OMB concerns and that the carefully managed use of CHAMPUS funds at VA facilities would provide the Department with another useful tool for controlling CHAMPUS costs and would not have a negative impact on military hospital efficiency.

Question. What do you believe will be the long-run impact of these agreements? Is it possible the two systems will be merged?

Answer. The VA/DOD Sharing Program serves as a tool in our efforts to contain costs, improve access to medical services, and save federal dollars. The program's long-term impact lies in stimulating facility commanders to make the best use of available federal resources by obtaining the lowest possible cost for providing quality care to our beneficiaries and eliminating duplication and underutilization of federal resources.

I do not endorse a merger of the VA and DOD health care systems. Such a merger of these two overburdened health care systems would so consume the administrative resources of both Departments as to cause deterioration of patient care and the management system of each. It would erode this Department's ability to fulfill its mission of medical readiness, protection of the military health benefit for all eligible DOD members and their families, and attention to cost and quality care. However, I do not see that sharing agreements will lead to a merger of the two health systems and believe it is vital that the VA and DOD continue resource sharing agreements where they prove cost effective.

Question. Are you able to audit the funding and the savings associated with these agreements? (If so, please provide an audit of the fiscal years 1986–89 VA/DOD resource sharing agreements, identifying the costs and the savings associated with the agreements.)

Answer. A complete audit of the fiscal years 1986–89 costs and savings associated with VA/DOD resources sharing agreements is not available. A revised report on payments to VA facilities in fiscal year 1988 is being prepared and will be submitted to the Committee in June. By June a detailed report on fiscal year 1988 savings will also be complete.

In addition, we are improving the system for auditing costs and savings in response to the concerns of this Committee. It will include a comprehensive monitoring system and external validation of data collection and adherence to operational principles of VA/DOD Resource Sharing Agreements. We will incorporate a recurring Service reporting requirement providing pertinent data at the military treatment facility level. This system will enable more complete reporting to Congress and will do a better job of documenting the cost and savings attributed to VA/DOD Resource Sharing.

Question. Are savings reflected in the fiscal year 1990 budget request?

Answer. Savings do not appear as a line item in the budget.

PHYSICIAN PAY PLAN

Question. The Department recently submitted the Health Professionals Special Pays Study and Plan for the Implementation of the 1989 Medical Officer Retention Bonus. This study indicates that military physician pay has not kept pace with physicians in the civilian sector.

Dr. Mayer, we have heard a number of complaints from physicians who are upset because they feel your study does not adequately compensate all categories of physicians. Would you care to comment on the physician pay study and give your rational for assigning different incentive special pay levels to different categories?

Answer. The Health Professionals Special Pays Study produced strong evidence of a serious emerging retention problem. Our study found that compensation has a significant impact on retention. Retention variability among physician specialties seems to be proportional to the disparity in pay between military physicians and their civilian peers. Specialties with the lcwest retention generally have the highest earnings potential in the private sector.

In constructing our permanent pay plan, we carefully considered the structure and effects of the successful 1980 physicians' special pay legislation, civilian compensation levels and the results of our retention analysis. Our proposals include a Medical Special Pay (MSP) which would be an entitlement paid to physician specialties whose inventories are below wartime or peacetime needs, or where retention problems are anticipated because of a large pay disparity with civilian incomes. Our plan provides for groupings of specialties designated to receive varying MSP amounts according to relative disparity with civilian income. Our recommendation includes an enhancement feature of the Additional Special Pay program increasing current annual pay levels in exchange for multi-year commitments. This enhancement is a general retention feature not targeted to specialties.

The 1989 Medical Officer Retention Bonus (MORB) was designed within the constraints of the $30 million Congressional authorization. The specific eligibility requirements, targeting to correct the most severe shortfalls, and the specialty specific focus are as outlined in the fiscal year 1990 Defense Authorization Conference Committee Report.

We recognized from the outset of the special pays study that the concept of specialty-based pays was the most contentious issue facing us. However, an overwhelming majority of the over 4,200 military physicians responding to our October 1988 survey were receptive to the specialty-based pay concept. Less than 25 percent of the respondents indicated they thought this concept would be dissatisfying to them, or that it would be divisive or harmful.

The Department recently reviewed data and analyses regarding retention and manning of those specialties not originally included in the 1989 MORB plan or in the long-term plans for MSP. These specialties include most primary care specialists. The analyses, based upon new data, show retention deficiencies in these specialties which, while not as severe as those specialties originally included in our proposals, is sufficiently troublesome to warrant attention now. Accordingly, Deputy Secretary Taft issued supplemental guidance which adds these previously excluded specialties to 1989 MORB eligibility and includes them in the fiscal year 1990 plan for MSP.

Question. The estimated cost of this physician pay plan for fiscal year 1989 is $29.5 million. What is the estimated cost for fiscal year 1990 and is this amount included in the budget request?

Answer. Our fiscal year 1990 proposal is estimated to cost a total of $87.8 million broken down as follows:

	Million
Medical special pay	$65.8
Additional special pay, multiyear enhancements	22.0
	87.8

This amount is included in the fiscal year 1990 budget currently under consideration by the Congress. Funding is requested in the Services Military Personnel Appropriations and also in the Department's Legislative Contingency Account.

Question. It is our understanding that when a physician who has been practicing in the civilian sector joins the military system, he or she must keep malpractice insurance. This is a tremendous roadblock to encouraging physicians into the military system. Do you plan to submit legislation to alleviate the need for the insurance?

Answer. According to a recent GAO report, about one-half of all medical malpractice policies currently written are of the "claims-made" variety which provides coverage for malpractice incidents filed during the policy year. Because a malpractice claim might be incurred but not reported during the policy year, the "claims-made" policy requires an endorsement, commonly called a tail, when the malpractice coverage is discontinued—for example, upon entry to active military duty. While the policy guarantees the availability of the tail coverage, the cost for this future coverage is not fixed in advance. The tail coverage is a one-time cost, often linked to the specialty, which ranges from 90 percent to 400 percent of the annual premium. While the Department is aware that the prohibitive costs of the tail coverage may impact on active duty accessions, it currently does not have a plan to submit legislation to alleviate the need for such coverage.

STAFF SHORTAGES

Question. Pay is not the only dissatisfier for military physicians. We understand that there is a serious shortage of nurses and support staff, including administrative personnel. Due to these shortages, hospitals are not operating efficiently and physicians are frustrated in their desire to increase patient care. In your opinion, what occupations are experiencing the most severe shortages?

Answer. Reports of military nurse shortages have several dimensions. Historically, resources have often been inadequate to support the level of budget authorizations needed to fully meet nursing care requirements, and that resource aspect is one dimension of the nurse shortage. As another dimension, the Military Departments are experiencing early effects of the nationwide nurse shortage in their recruiting activities, especially in the Navy. Since the beginning of fiscal year 1985, the Navy has added more than 470 military nurse authorizations to reduce its shortages in meeting nursing care requirements, but has been unable to meet annual nurse accession goals. Consequently, the net manning gain has been little more than 100 additional military nurses, and the Navy remains short of authorized nurse manning levels. The Army fell short of military nurse accession goals for the first time in fiscal 1988, and has increased by more than 400 its authorized nurse strength for fiscal year 1989 to reduce recognized shortages in nurse staffing, and must increase its recruitment levels accordingly. It is becoming increasingly difficult to compete with the private sector for scarce nurse resources, and the Department recognizes the need to make the Services more competitive in this regard. Certain nurse specialties, most prominently Nurse Anesthetists, are especially difficult to recruit and retain because of their high salaries and short supply in the private sector, and this is yet another dimension to the nurse shortage problem. The recently completed report of the Health Professionals Special Pays Study of the Military Nurse Corps, which is currently being coordinated within the Administration prior to submission to Congress, provides a comprehensive review of recruiting, retention, management and shortage issues affecting active duty military nurses.

Severe shortages of allied health care personnel vary by Service; optometrists in the Army and pharmacists and psychologists in the Navy are well below levels authorized in the budget. In addition, the numbers of technical and administrative staff to support physicians in patient care settings are not adequate to ensure optimum efficiency and effectiveness. This represents a dual shortage of both billets and personnel.

Question. Do you plan to submit legislation to address these shortages?

Answer. The Department is considering several possible compensation incentives to recommend to address emerging nurse manning problems.

Question. In the Committee's version of the fiscal year 1989 DOD Appropriations bill, we included a provision which would have given DOD the authority to pay prevailing wage rates for certain health care professionals. This provision was subsequently deleted on the House floor. Do you think this is valid way of addressing health care staff shortages?

Answer. Section 8090 of the fiscal year 1989 Defense Appropriations bill contained language to grant the Department of Defense the needed authority to waive wage rate restrictions for civilian health care personnel in high cost areas. While the authority contained in this appropriation language would have provided some relief in terms of pay flexibility for health care occupations, the Department prefers an alternative personnel system authority as the long-term solution for this problem

For several years, the Department of Defense has strongly supported legislation to enable agencies to implement alternative civilian personnel management systems. During the 100th Congress, the Department supported S. 2530, a bill that would have authorized ten large personnel system demonstration projects, with four designated for DOD S. 2530 was passed by the Senate, but was not considered by the House. Such legislation would enable the DOD to address other factors, as well as pay, in attempting to improve our recruitment and retention of our staff shortages. DOD's interest in alternative personnel systems remains very strong. The Department would support similar legislation in the 101st Congress.

MANAGEMENT CONTROL OF DOD MEDICAL PROGRAMS

Question. On September 30, 1988, the Committee's Surveys and Investigation (S&I) staff, completed a report on all of the DOD medical programs, including CHAMPUS. According to the S&I staff, "The DOD health care system is marked by an absence of cohesive, unified planning, and by competing or conflicting objectives, policies and staffing decisions * * *.

We are very concerned that a program, estimated to cost $13 billion in fiscal year 1989, is without unified planning and objectives. It is possible that the lack of management control over DOD's health care system has contributed to the large program increases since 1985.

There have been suggestions for a defense health agency which were met with extreme criticism from the Services. However, there are very few alternatives to achieving a cohesive medical program. What are your thoughts on this subject?

Answer. I remain opposed to the establishment of a Defense Health Agency, but recognize that if important joint program initiatives fail, it may be the only practical solution. However, over the past few years, the Department has made significant progress in pursuing innovative and varied approaches to management reform:

First, using CHAMPUS dollars as investments in the generally less costly direct care system;

Second, drastically reducing our reimbursements to civilian providers through modernizing our payment mechanisms;

Third, eliminating the turbulence in CHAMPUS funding by improving our forecasting and claims payment methods; and

Fourth, testing a variety of managed care health care programs to meet the unique health care needs of a military population.

Direct care: Military medical treatment facility investment initiatives continue as the most significant long-term strategy to contain CHAMPUS costs, improve program efficiency and provide more care in DOD hospitals and clinics. Our investment initiatives include: Project Restore, The Military Civilian Health Services Partnership Program, Health Care Finder programs, and Alternate Use of CHAMPUS Funds Test.

Payments for Purchased Care: The Department instituted a number of payment reform initiatives which seek to contain or reduce the cost of care provided by civilian hospitals, physicians, and other individual providers under CHAMPUS. The primary reforms put in place include a CHAMPUS Diagnosis Related Group (DRG) based prospective payment system for most hospital charges and use of the Medical Economic Index (MEI) to limit increases in payment levels to individual providers.

Full Funding for Care: The Department embarked on an aggressive effort to define clearly components of CHAMPUS costs, to understand better the outside factors which impact these cost components, and to refine the forecasting methodologies. The forecasting efforts centered on the CHAMPUS Actuarial Projection System (CAPS) and factors outside CAPS.

Managed Care: Managed care initiatives focus on three broad demonstrations: the CHAMPUS Reform Initiative, the Fiscal Intermediary-Preferred Provider Organization (FI-PPO) demonstration, and the Catchment Area Management (CAM) demonstration being implemented by the military medical departments. Each of these three broad CHAMPUS demonstrations has a common core element—benefit packages designed to improve access to services by inducing beneficiaries to use a preferred network of high quality, cost effective health care providers.

Today these reforms are not just plans. They are in place as an integral part of the overall management of the CHAMPUS program. Use of prospective payment systems, like DRGs for inpatient care, will save the Government about $1.5 billion in the fiscal years 88-91 timeframe. This reform slashed the average annual cost growth of the CHAMPUS program from 25 percent—fiscal years 1985-87—to 6 percent—fiscal years 1987-89.

Managed care under CHAMPUS is now part of the landscape. Voluntary enrollment in California and Hawaii has taken hold under the CHAMPUS Reform Initiative. Enrollment offshoots in other demonstrations will offer more managed care opportunities to our patients. By the end of 1989, one out of every three CHAMPUS beneficiaries will have managed care plans available for their use. These demonstrations are expected to save the Government and our patients millions annually. All three broad based managed care demonstrations will be uniformly evaluated by RAND Corporation.

After the program funding turbulance experienced between fiscal years 1985-87, sufficient funds were available to pay all claims processed in fiscal year 1988, no unpaid claims were carried over into fiscal year 1989, and no mid-year supplemental appropriation was required.

Our managed care initiatives are part of an overall strategy which is incorporated in our programs which operate under our flexible demonstration authority.

The Department recently submitted a detailed report to Congress on the 15 currently operating demonstrations. Three managed care initiatives, already mentioned, are now underway: the CHAMPUS Reform Initiative, the Fiscal Intermediary Preferred Provider Organization demonstration, and Catchment Area Management demonstrations. Each is being conducted to save money and improve access to services, especially when military treatment facilities cannot meet the full demand for primary health care posed by dependents and retirees. Each program induces beneficiaries to use a preferred newwork of high quality, cost effective health care providers rather than the more costly, traditional CHAMPUS program. Each is consistent with Congressional guidance.

The CHAMPUS Reform Initiative operates under a fixed-price contract in California and Hawaii. In addition to better access to care for DoD beneficiaries in these States, we estimate the CHAMPUS Reform Initiative will cost 10-percent less than CHAMPUS would otherwise cost. Five Catchment Area Management projects now in planning stages will make CHAMPUS funds available to hospital commanders responsible for management of all health care needs of a catchment area population. A new Fiscal Intermediary Preferred Provider Organization Project, under which our CHAMPUS Fiscal Intermediary also manages a Preferred Provider option for DOD beneficiaries, is operating in Florida and Georgia, where it is expected to save at least $4 million annually.

All three of these managed care demonstrations are subjects of very thorough evaluations being conducted for DOD by the RAND Corporation. As experience is gained from these and other health care demonstrations, we will construct a composite managed care model which will employ the most advantageous features of each for the military beneficiary population.

In addition to these three major managed care demonstration projects, DOD is conducting a large number of other demonstrations. These include three previously operating activities which Congress made part of the 1987 Authorization Act demonstrations: The Fort Drum project, which tests the effectiveness of the integration of military and civilian health care providers in providing comprehensive health services to a large concentration of Department of Defense beneficiaries in the absence of a military hospital, and whether the assignment of every active duty family member to a military family practitioner and the establishment of a military Comprehensive Health Care Center on the installation is sufficient to induce these beneficiaries to use these services rather than civilian providers in the absence of any cost sharing, the Tidewater

Contract Provider Agreement for mental health services, which tests the concept of case management and preferred provider networks under a fixed-price contract for CHAMPUS mental health services, and PRIMUS/NAVCARE clinics—to expand the accessibility of primary care to military beneficiaries, to relieve overcrowding of the military medical treatment facilities (MTF), and to provide cost-effective care. Evaluation plans have been developed for these projects to permit appropriate project comparisons.

Other demonstration projects include a long list of Congressionally mandated activities, most of which are targeted to particular types of care or providers, such as chemical aversion therapy, chiropractic care, marriage and family therapy, home health care, biofeedback and others.

Question. Barring the creation of a new agency, what are the prospects for the development of a more central planning, programming, and budgeting process to facilitate direct control by the Secretary of Defense?

Answer. We continue with efforts to improve central planning, programming, and budgeting for the Military Health Services System. In addition to the successful initiatives mentioned in my answer to the previous question, we are well on our way towards implementing a system of allocating resources to our military hospitals based on Diagnosis Related Groups, we have already improved our forecasting of CHAMPUS costs, and I continue to work within the parameters of the Department's Program, Planning, and Budgeting System to ensure that consistent resource decisions are made across the medical programs of the Services.

ALTERNATIVES TO REDUCING MEDICAL COSTS

Question. In January of 1988, CBO released a report entitled "Reforming the Military Health Care System." Among other things, this report compared the military's use of their medical system with the civilian's use of their system—private health insurance. The dependents of active duty military on average, visit the doctor seven times a year—1.5 times more often than their civilian counterparts.

A recent magazine article noted that state and local governments are turning away from generous health benefit plans because they can no longer afford to maintain such programs. The benefits under CHAMPUS and the direct health care system have been increasing each year, with no relief in sight.

These two aspects, heavy utilization and expanding benefits, are the main drivers of the increased cost of DOD's medical programs. DOD is far behind the civilian sector in evaluating these two issues and addressing them may be the only way to achieve significant reductions in medical care costs. Would you agree with this assessment?

What proposals do you have to address and evaluate the benefits and the utilization of the DOD medical system? Please provide the recent study completed by your office which compares military and civilian health care benefits.

Answer. In many of our programs, we have sought ways to utilize the successful programs of the civilian sector for our military health services system. Over the past few years, the Department's major CHAMPUS policy objectives have been to protect program benefits, stabilize costs, and ensure program accountability. The key feature of our strategy recognized the growing interdependence of military and civilian health care delivery networks. The framework of our strategy focused on four types of responses:

Direct care: Military medical treatment facility investment initiatives continue as the most significant long-term strategy to contain CHAMPUS costs, improve program efficiency and provide more care in DOD hospitals and clinics. Our investment initiatives include: Project Restore, The Military-Civilian Health Services Partnership Program, Health Care Finder program, and Alternate Use of CHAMPUS Funds Test.

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After the program funding turbulence experienced between fiscal years 1985-87, sufficient funds were available to pay all claims processed in fiscal year 1988, no unpaid claims were carried over into fiscal year 1989, and no mid-year supplemental appropriation was required.

Despite the credible achievement in program management during the last several years, much remains to be done in the years ahead in the areas of benefits, costs, and demonstrations. We recognize our responsibility to manage the Department's CHAMPUS program efficiently.

Over the past year, the Department has been working on a review of the military health benefit. This reveiw highlights the emerging trends and changes in the demographics of the nonuniformed military beneficiary population. This group of beneficiaries has grown almost 40 percent from 4.5 million in 1956, to 7.0 million in 1989. Equally as important, while the active duty force and their dependents made up 90 percent of the nearly 6.5 million beneficiaries in 1956, today this group accounts for only little over half of all DOD beneficiaries eligible for military health benefits in the MHSS.

The growth rate of retirees, their dependents, and survivors is a key factor to understanding cost and utilization increases in both the civilian and military components of the MHSS. This group of military beneficiaries is entitled to conditional "space available" care in the direct care system. Therefore, relative to active duty members and their dependents, access to care by retirees, their dependents and survivors varies greatly and is dependent on many factors including individual MTF capability and Service affiliation. However, these beneficiaries pay minimal or no cost share for these services.

The vast majority of this group has an absolute entitlement to have care they purchase in the civilian sector paid for on a cost-share basis by CHAMPUS. About 9 percent of these beneficiaries are ineligible for CHAMPUS—but continue to be eligible for care in the direct care system—due to their Medicare eligibility. The "over 65" population is the fastest growing age group of military beneficiaries. The review found that the MHSS has a significantly greater proportion of beneficiaries age 65 years and older than exists in the private group insurance population.

CHAMPUS beneficiaries not living near MTFs have fewer restrictions on freedom of choice than individuals in private and federal plans. Also, the review found health benefit packages under private insurance plans usually require deductibles at least double the CHAMPUS deductibles while the typical deductible in the Federal Employees Health Benefit (FEHB) Program is at least three times higher than CHAMPUS.

Despite the credible achievements in CHAMPUS cost management during the last several years, the continuing rise in health costs and aging of the population will help dictate the future strategies for our Military Health Services System.

FORWARD DEPLOYED HOSPITALS

Question. This Committee has focused considerable attention on the ability of the DOD medical community to adequately treat casualties. In response to Congressional concern, the Department has increased attention to this area and has increased both the level of funding for readiness projects and the number of medical personnel in the reserves. A principal ingredient of medical readiness, is the availability of forward deployed hospitals and deployable medical systems or DEPMEDS. In your opinion, what is the value of maintaining contingency hospitals?

Answer. Medical care of combat troops is essential to combat sustainability. The fighting capability of combat forces is not credible without the medical capability to sustain these forces in a Theater of Operations. Within the Theater of Operations there are four echelons of medical support. The Services' medical departments, while providing identical medical care across the four echelons, must provide it within differing force structures. This is due to the varying Service missions described above and the manner in which they execute their wartime mission.

The Services' DEPMEDS programs are designed to deliver definitive health care through a combination of both prepositioned, rapidly erectable and relocatable facilities and fixed, presited and rapidly responsive facilities. These programs are also developed in consonance with each Service's specific mission, operations plans, and force structure. In the combat zone, medical support must be sufficiently flexible to respond to the needs of the combat force. For the Army and Marines this means that a great deal of transport is necessary for the forward units to move with the forces they support. Conversely, air bases are fixed, so their medical support does not need much transportability. Toward the rear of the combat zone and in the communications zone, the medical support can remain stationary but must be near the patient evacuation routes.

Another critical factor is the timing of the need. If we are to provide sufficient care to U.S. casualties, much of our medical equipment and supplies must be available immediately. Currently, we can field only a limited number of the hospital beds needed to meet our requirements, many of which must be airlifted from the United States. However, airlift support is a critical commodity in the first days of mobilization and the highest priority is airlifting troops and munitions. Without buildings available for storage of medical equipment and supplies, the Services cannot provide the materiel required during the first stages of a conflict.

The Services have developed programs that will allow DOD to meet its wartime medical missions. The process requires review at each level and results in a coordinated medical program, while taking into account the unique requirements of each military department. Projects contained in the fiscal year 1990 budget submission are vital in maintaining an orderly build-up toward a minimal wartime medical readiness posture. Failure to support these projects would seriously hamper our efforts to establish the medical capability required to support U.S. forces in combat.

Question. What is the status of the Department's plans to increase the number of contingency hospitals and DEPMEDS?

Answer. The Five Year Defense Plan (FYDP) currently includes programming for 53 DEPMEDS hospitals. The following chart displays them by Service and year:

FYDP PROGRAMMED DEPMEDS HOSPITALS

	Fiscal year—				
	1990	1991	1992	1993	1994
Army	10	7	7	8	9
Navy	1	1	1	2	1
Air Force	0	0	2	2	2
Total	11	8	10	12	12

Question. What are your funding plans for the future?

Answer. The following chart displays the FYDP funding by Service:

FYDP FUTURE FUNDING FOR DEPMEDS

[In millions of dollars]

	Fiscal year—				
	1990	1991	1992	1993	1994
Army	87.3	87.3	74	73	73
Navy	29.8	30.7	34	69	36
Air Force	0	0	27	27	28
Total	117.1	118.0	135	169	137

Question. Please break out the fiscal year 1989 and 1990 funding levels for DEPMEDS. Please provide for the fiscal year 1989 current estimate for the total other procurement of medical readiness equipment.

Answer. The following chart provides DEPMEDS funding for fiscal year 1989 and fiscal year 1990 by service:

[In millions of dollars]

	Fiscal year—	
	1989	1990
Army	152.9	87.3
Navy	24.7	29.8
Air Force	0	0
Total	177.6	117.1

For fiscal year 1989, the current estimate for the total other procurement of medical readiness equipment is $128.6 million.

CHAMPUS COST CONTAINMENT

Question. CHAMPUS costs have risen tremendously in the past few years. Since 1985, the cost of the CHAMPUS program has increased by $1.2 billion or 86 percent.

DOD has initiated several cost containment and cost reduction plans in an effort to slow the growth in the program. What are the major factors, beyond inflation, that have caused the CHAMPUS budget to increase by such a large amount?

One major cost reduction effort was the implementation of Diagnosis Related Groups (DRGs) as a tool for reimbursement. How has this initiative saved money and are the savings reflected in the fiscal year 1990 budget?

Are plans being developed to include children's hospitals and mental health care under DRG reimbursement?

Answer. Several factors have been identified as responsible for recent CHAMPUS cost growth. They include an increase due to inflation in medical care costs, an increase in the number of eligible beneficiaries and an additional demand for psychiatric care. However, much of the increase can be attributed to an increase in utilization brought about by a reduction in inpatient and outpatient workload at military medical facilities. Programs are in place to enhance the capability of military treatment facilities to provide more care in-house. This is ultimately the surest approach to reducing CHAMPUS costs, and is urgently needed. Statistics through fiscal year 1988 show a continued decrease in admissions—since 1985—outpatient visits—since 1983—and operating beds at military treatment facilities and a continuing growth in the patient admissions and visits purchased in the civilian sector using CHAMPUS funds.

Over the past few years, the Department has pursued innovative and varied approaches to CHAMPUS reform, with efforts paying off. The strategy employs four approaches to management reform, the one addressed above, using our resources as investments in the generally less costly direct care system, drastically reducing our reimbursements to civilian providers through modernizing our payment mechanisms, testing a variety of managed care health care programs to meet the unique health care needs of a military population, and eliminating the turbulence in CHAMPUS funding by improving our forecasting. Until recently, CHAMPUS had been paying for hospital care on the basis of billed charges. In 1983, Congress called on DOD to model inpatient care reimbursement after the Medicare prospective payment system which uses fixed rates for particular diagnoses of medical care grouped into DRGs. A 1986 law gave CHAMPUS the practical ability to adopt a new payment method by linking hospital particpation in Medicare with that in CHAMPUS. The Department began paying for most hospital care on the basis of DRGs, rather than billed charges, on October 1, 1987. This change is saving CHAMPUS $300 million this fiscal year. The implementation of payment reform is a primary factor in cutting the rate of growth of CHAMPUS costs, from an average annual increase of 25 percent for fiscal years 1985-87 to 6 percent for fiscal years 1988-89. These savings are reflected in the budget submission.

On October 1, 1988, all alcohol and drug abuse treatment cases, along with some mental health care in acute hospitals, were brought under the CHAMPUS DRG system. Effective January 1, 1989, CHAMPUS began paying for inpatient mental health services in psychiatric hospitals and units on the basis of fixed per diem rates. Future increase will be limited to those which Congress prescribes for these hospitals under Medicare. April 1, 1989, neonatal services and children's hospitals will be incorporated into the DRG system. It is anticipated that these reforms will save more than $1 billion in CHAMPUS costs between now and fiscal year 1991.

COSTS OF CARE IN THE MILITARY FACILITIES

Question. When comparing the cost of providing care in the military treatment facilities (MTFs) to the cost of providing the care under CHAMPUS, we are often told that the MTFs are less expensive.

There have been a number of projects developed, like Project Restore, to increase the level of care provided in the military facilities. Do you see a decrease in the CHAMPUS funding when these initiatives are implemented? If so, please provide us with examples.

Answer. We have been successful in slowing the rate of growth in CHAMPUS costs. We can show a lessening of what the requirement would have been in the absence of an initiative. With DRG's, we can certainly show large savings. Also very promising are the Medicare Economic Index (MEI) and other payment reforms which will save money. From 1985–87, the rate of growth in CHAMPUS programs was 25-percent annually, but we have reduced that rate to 6-percent annually from 1987 to 1989. This accomplishment is directly attributable to our payment reform initiatives. Other programs seek to invest in the generally less costly direct care system to contain CHAMPUS costs. These investment initiatives include the Military-Civilian Health Services Partnership Program, the Health Care Finder Program, and the Alternate Use of CHAMPUS Funds Test. Each of these allows the Services to use CHAMPUS funds to increase military treatment facility capability. Through the use of civilian providers, paid discounted rates, to treat CHAMPUS patients in the military hospital, hospital capability and productivity can be increased. My staff is currently conducting a formal review, to continue over the next several months, of the DOD-wide cost effectiveness of these programs.

Question. For the record, please provide, in fiscal year 1989 constant dollars, the O&M medical costs from fiscal years 1985–89.

Answer. To compare fiscal year 1985 with fiscal year 1989, we inflated the actual fiscal year 1985 expenditure of $1,370.9 million at the rate of the Medical CPI to $1,781.8 million. The current fiscal year 1989 estimate is $2,589.3 million. The difference of $807.5 million (45 percent) is the dollar amount the CHAMPUS program has grown. The two largest factors responsible for this growth are CHAMPUS-specific price growth above the Medical CPI and shifts in workload from the direct care system.

Control of the growth is being addressed through Project Restore and the Payment Reform initiatives:

	Million
Fiscal year 1985 actual	1,370.9
Inflated fiscal year 1985	1,781.8
Fiscal year 1989 estimate	2,589.3

[1] Medical CPI: 1986, 7.5 percent, 1987, 6.6 percent; 1988, 6.5 percent; and estimated 1989, 6.5 percent.

Much of the increase can be attributed to an increase in utilization brought about by a reduction in inpatient and outpatient workload at military medical facilities. Other factors include an increase due to inflation in medical care costs, an increase in the number of eligible beneficiaries and an additional demand for psychiatric care.

STATUS OF ALTERNATIVE USE PROJECTS

Question. In fiscal year 1989, in response to requests from the Services to use CHAMPUS funds for other than CHAMPUS claims to pay for "alternative use" projects, the Committee agreed to allow each Service to use up to $50 million for approved projects. The Services claimed that the use of these funds for other uses would, in turn, reduce CHAMPUS costs. Additionally, the Services informed the Committee that they had a number of projects that could be quickly implemented, if only given the go-ahead. We are now half-way through the fiscal year, how many of these projects have been approved by your office?

How many of these projects have been implemented?

What is the estimated CHAMPUS savings for fiscal year 1989 and fiscal year 1990 from these projects and have these savings been included in the budget?

Answer. I have approved 16 projects. The attached chart outlines these projects.

Six are operating currently and eight more will begin this Spring. The projects range from an open heart project at Eisenhower Army Medical Center to OB-GYN services at several Air Force facilities. Each Service has the opportunity to submit additional projects prior to the end of March.

I am encouraged that these projects are designed to recapture a wide variety of high cost CHAMPUS workload including over 3,400 admissions and 42,000 outpatient visits during their first year of operation. This will recapture $7.6 million in CHAMPUS claims in fiscal year and $17 million within one year of implementation. These savings have been included in the amended budget for fiscal year 1990-91.

ANNUAL ALTERNATE USE WORKLOAD AND COST DATA

U.S. ARMY

PROJECT	START DATE	ADMISSIONS	OUTPATIENT VISITS	RECAPTURE ($ THOUSANDS)	COSTS ($ THOUSANDS)	SAVINGS ($ THOUSANDS)
Eisenhower AMC, Fort Gordon, GA (Open Heart)	5 May 89	271	0	$ 2,894	$ 1,218	$ 1,676
Wm Beaumont AMC El Paso, TX (Psych)	1 Oct 89	246	4,236	2,664	2,256	408
DeWitt ACH Fort Belvoir, VA (ENT)	19 Mar 89	35	1,950	208	82	126
Darnall ACH Fort Hood, TX (Surg)	1 Apr 89	150	3,554	1,732	1,202	530
Ireland ACH Fort Knox, KY (Nuc Med)	1 Mar 89	0	2,754	218	178	40
Ireland ACH Fort Knox, KY (GYN)	1 Mar 89	94	316	401	266	135
Ireland ACH Fort Knox, KY (Psych)	1 Mar 89	113	2,183	1,031	280	751
Patterson ACH Fort Monmouth, NJ (GYN)	3 May 89	36	1,050	190	120	70
Irwin ACH Fort Riley, KS (Psych)	1 Mar 89	34	975	1,178	500	678
Winn ACH Fort Stewart, GA (OB)	1 Dec 88	300	0	1,059	515	544
TOTAL		1,378	17,017	11,575	6,617	4,958

U. S. NAVY

Camp Lejeune, NC Focus Center (Psych)	1 Apr 89	16	2,997	305	204	101

U.S. AIR FORCE

USAF Hosp, Elmendorf AFB, AK (OB/GYN)	15 Jul 89	321	4,716	1,091	639	4[illegible]
USAF Hosp Tinker AFB, OK (OB/GYN)	1 Apr 89	1,028	15,490	1,385	729	656
USAF Hosp Hill AFB, UT (OB/GYN)	1 Oct 88	322	418	1,223	892	331
380 Strat Hosp Plattsburgh, NY (Surg)	1 Jul 89	131	1,750	242	131	111
E.B. Strat Hosp Offutt AFB, NE (Psych)	1 Apr 89	269	0	1,185	819	366
Total		2,071	22,374	5,126	3,210	1,916

CHAMPUS REFORM INITIATIVE

Question. In late January, the future of the CHAMPUS Reform Initiative (CRI), was in doubt. This experimental program started in California and Hawaii, was floundering due to the contractor's inability to process claims.

Since that time, we have been informed that the Department has exercised its option to continue this program for another 6 months. DOD took this course of action after getting some concessions from the contractor concerning claims processing.

Would you please give us an update on the problems you have experienced and the changes you have made?

A recent report from your office states that you believe that there will be at least 5-percent savings with this progrm when compared to what the cost of CHAMPUS would have been. What is the cost associated with this 5 percent and has this savings been reflected in the budget?

Answer. The CHAMPUS Reform Initiative demonstration, now operating in California and Hawaii, is so far proceeding in a reasonable way. Managed care for our beneficiaries in those states is working. Beneficiary satisfaction is high. However, operationally our contract with the Foundation Health Corporation has had some problems. Fortunately, our monitoring of this important project identified these deficiencies early, and we have taken strong steps to correct them.

It is not unusual in a change of fiscal intermediaries to experience problems in claims processing. In the case of the CHAMPUS Reform Initiative, we were presented with serious difficulties, including significant delays in payment of claims to participating providers. These problems were so serious that I considered not exercising the contract option period which began February 1. However, significant progress was achieved during January toward resolution of all outstanding issues. An alternate claims processing capability has been purchased by the contractor, potential financial risks to the government are being limited, and several new senior managers with significant government contracting and business management experience have been added to the Foundation Health Corporation team. I believe that the identified operational problems have been adequately addressed by Foundation Health Corporation. An enhanced flow of information among the contractor, subcontractors and MTF commanders will produce faster results in correcting program deficiencies. Our intense oversight will continue to assure sufficient improvement into the Spring to warrant going ahead with this important health care initiative. At the Department's request, the RAND Corporation has recently prepared an initial evaluation report. It reports a continuing development through this "shake-down" period and the caution that "it would be premature and even irresponsible to assess CRI's effectiveness" at this point in the demonstration. This supports my belief that a year from now, its total accomplishments can be better assessed.

The 5 percent savings we referenced in the report to which you refer is $26 million, which is 5 percent of the estimate of CHAMPUS costs in California and Hawaii without reform. An offsetting reduction in the budget submission has been made to reflect this savings.

OVERSEAS CHAMPUS CLAIMS

Question. Dr. Mayer, there has been a problem with the processing of claims in your overseas CHAMPUS office. We have heard complaints from beneficiaries who have to use CHAMPUS because there is no available space at the military facilities, and then they have to wait an inordinate amount of time to be reimbursed by the overseas CHAMPUS office.

What were the problems and have they been corrected?

What is the current overseas CHAMPUS workload and how does it compare with past experience?

Since the troops level has remained relatively constant for the past several years due to a Congressional limitation on the number of troops, what has caused the increase in the use of CHAMPUS?

Has the Congressional limitation on the number of civilian workyears for overseas locations contributed to the problems in the overseas CHAMPUS office?

Answer. Claims payment delays have been an historical problem overseas. These delays place an unnecessary strain on beneficiaries and providers. I made a commitment to resolve these problems permanently. I sent a management advisory study team to review the operation of OCHAMPUSEUR. They recommended adding additional civilian positions, providing back-up contract capability, raising civilian hire grades to reduce staff turbulence, and obtaining ten permanent spaces to replace those on loan from 7th Medical Command as solutions. I have taken several steps to resolve permanently the claims backlog in Europe. These efforts resulted in the recent reduction of our backlog from 8,000 in December to 2,200 in March. I added three permanent positions to the OCHAMPUSEUR staff and these positions are now filled. Processing support was sent from the States and on-call support agreements have been arranged with two German firms for the future. I have taken steps to correct downgraded job Classifications and the Army has allowed permanent hire for ten job slots currently on loan.

These actions have been effective in reducing the inventory of backlogged claims to 2,196 in mid-February. As noted, the backlog in Europe CHAMPUS claims approached 8,000 at the end of December 1988. An acceptable level is 2,500 a twelve day backlog.

The increase in the use of CHAMPUS in Europe stems from an inability of the European medical treatment facilities to meet the care demands of the eligible beneficiaries. The inability may stem from a lack of sufficient capacity or capability or when the beneficiary does not reside near an MTF.

No. The Congressional limitation on the number of civilian workyears for overseas locations has not contributed to the problems in the OCHAMPUS European Office.

FRAUDULENT CHAMPUS CLAIMS

Question. Dr. Mayer, there have been reports of groups that have been treating CHAMPUS patients for reasons not covered under CHAMPUS guidelines—such as stop smoking clinics—but have been filing fraudulent claims with CHAMPUS to receive reimbursement.

What can be done to monitor these claims to ensure that fraudulent claims are not paid?

What can be done to punish those organizations which try to bilk money from CHAMPUS?

When the government discovers these types of actions, who ends up paying for the care—DOD or the beneficiary?

Answer. Since it is almost impossible to prevent fraudulent claims from being submitted to fiscal intermediaries (FIs), our policies and procedures are directed toward the prevention of claims payment and the recoupment of inadvertently paid claims. The identification and investigation of potentially fraudulent CHAMPUS claims is principally the responsibility of the OCHAMPUS Office of Program Integrity and the FIs, who receive, adjudicate and process CHAMPUS claims. These claims processors are required to maintain internal processing screens and controls designed to identify potentially fraudulent claims.

When a fraudulent claim is discovered, action is taken to recoup the inappropriate payments from the beneficiary of the provider—depending on who has initiated the fraud—and to pursue any legal remedies available under the law. This may involve the prosecution and conviction of the beneficiary or provider for the submission of false claims against the government. The beneficiary may be liable if they are responsible for the submission of the false claim. In addition to those fraudulent claims discovered by the FIs, a number of potentially fraudulent claims are brought to the attention of the Office of Program Integrity by CHAMPUS beneficiaries, providers, health benefits advisors, and the investigative arms of the Service. OCHAMPUS collaborates with the Services, as well as the Defense Criminal Investigative Service (DCIS) with respect to the detection and investigation of fraudulent CHAMPUS claims. OCHAMPUS seeks to publicize these cases as a deterrent to other beneficiaries and providers. Finally, OCHAMPUS will very soon publish a new rule amending the CHAMPUS regulation to provide stronger and more clearly defined remedies for fraud, abuse and conflict of interest. This final rule is similar to the Medicare Regulation on fraud and abuse.

Providers who have submitted fraudulent claims will be suspended, terminated, or excluded from the CHAMPUS program and civil and/or criminal action will be initiated against them. CHAMPUS is prohibited by law from paying an unauthorized provider. All payments paid by CHAMPUS to such providers of care will be recouped.

FORT BRAGG MENTAL HEALTH DEMONSTRATION PROJECT

Question. The report accompanying the fiscal year 1987 DoD Appropriations bill, included direction for the Army to conduct a mental health care demonstration project in the Fort Bragg catchment area. The report accompanying the fiscal year 1988 DoD Appropriations bill reiterated the Committee's direction and stated that the project should begin as soon as possible in fiscal year 1988. In last year's hearing, you stated that the project would be in place before the end of 1988. It is our understanding that the Fort Bragg Mental Health Care project is not yet in place as directed by this Committee and as promised by you.

What is the hold up?

When do you anticipate this project will be implemented?

Answer. The Army is continuing to work with the State of North Carolina and I fully expect this contract to be awarded by the first of August, 1989. Difficulties regarding a sole source versus a competitive procurement were overcome with specific language in the fiscal year 1988 Continuing Appropriations Conference Report. The Army submitted its proposal to my office in December 1988 and I approved it and delegated the necessary demonstration authority to the Army on December 20. I have recently sent a memorandum to the Army urging an expedited implementation of this project.

CHAMPUS DEMONSTRATION PROJECT IN NEW ORLEANS

Question. Dr. Mayer, we understand that you have received bids for the CHAMPUS demonstration project in New Orleans.

What is the current status of this project?

What is the timetable for contract award and the startup of services under this new arrangement?

Answer. The original CHAMPUS Reform Initiative procurement included the New Orleans region; however, of the two bids received for the region, one withdrew. The other bid went through a thorough evaluation process with other CRI evaluation activities. This lasted six months. At the conclusion of the evaluation however, the evaluated bid did not reach the government's competitive range. Pursuant to further Congressional direction, another procurement for health care services in New Orleans began in the fall of 1988 with features similar to CRI. Proposals were requested on September 1, 1988. After two extensions requested by potential bidders, the proposal period closed February 13, 1989. The proposals received are now in the process of evaluation.

Evaluation is expected to take about 70 days. A potential award could occur in May, 1989 with start of services about November 1, 1989.

DRUG AND ALCOHOL ABUSE

Question. Dr. Mayer, the most recent Worldwide Survey of Substance Abuse, indicates that drug and alcohol abuse are at the lowest levels since the survey began in 1980.

In 1980, 27.6 percent of the respondents had used drugs in the previous 30 days, 36.7 percent in the previous 12 months. The 1988 study shows that these numbers have dropped to 4.8 percent in the previous 12 months. The number of respondents who abstain from alcohol was 13.4 percent in 1980 and is 17.2 percent in 1988.

These are encouraging numbers, especially considering the effects this behavior has on increased productivity.

What is causing the decrease in drug use—is it the random drug testing procedures?

Answer. We believe there are several factors that have contributed to the decrease in drug abuse among service members. We have implemented an extensive education program that focuses attention on changing individuals' knowledge, behavior, and attitudes about drug abuse and emphasizes the negative effects of drug abuse on health as well as the potential legal consequences. Our random drug testing program provides an effective means to deter service members from starting or continuing drug abuse. We have maintained an extensive law enforcement effort to control the availability of drugs on installations. In addition, separations for drug abuse have removed a significant number of individuals from active duty who abuse drugs, thereby, affecting future positive rates. Studies and surveys indicate that we are drawing from a civilian population that has a decreasing prevalence of drug abuse.

Question. Is DOD now testing recruits for drug use? How extensive is this program and what are the costs?

Answer. We began testing all applicants for military service on June 1, 1988, as required by the Fiscal Year 1988/1989 National Defense Authorization Act. From June 1988 through December 1988, over 320,000 applicants were tested for marijuana, cocaine, and alcohol abuse. The annual cost for conducting this applicant testing program is approximately $23.2 million. This figure includes the cost of testing all applicants that were processed at either the Military Entrance Processing Stations or through the Defense Medical Examination Review Board.

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

Question. The military tests all those entering the force and all active duty personnel on a scheduled basis, for the presence of AIDS.

What is your current positive rate among recruits and how does it compare with the civilian sector?

What is your current positive rate among active duty and how does it compare with the civilian sector?

Answer. The Department of Defense recruit screening program for Human Immunodeficiency Virus (HIV-1) began in October 1985. During the period October 1985 through December 1988, the Department has screened approximately 1.83 million civilian recruit applicants. The overall antibody positive prevalence rate is 1.3 per thousand tested. The interpretation of seroprevalence in this group of young, apparently healthy persons and the comparison of the seroprevalence rate in this group to the civilian sector in general are complicated by two important considerations. First, social and demographic characteristics of military applicants differ from those of the U.S. civilian population in the same age groups. Males and racial and ethnic minorities are overrepresented among applicants, while certain groups at high risk for HIV-1 infection, including homosexual men and intravenous (IV)-drug users, are subject to exclusion from military service. Second, characteristics of the applicant population have probably changed over time because of increased self-deferral of persons who suspect that they might have been exposed to HIV-1.

The active force testing program began in January 1986. As of March 11, 1989, a total of 2,257,043 personnel currently on active duty have been screened. Of these, a total of 2114 have been identified with serologic evidence of HIV-1 infection. This is in antibody positivity rate of about 1.0 per thousand individuals screened. The HIV-1 antibody seroprevalence in current active-duty military personnel may not accurately reflect the seroprevalence in the civilian population for three reasons. First, homosexuals and IV drug users are underrepresented in military personnel. Second, persons with hemophilia are not medically eligible for military service. Third, seropositive military recruit applicants are denied enlistment.

Question. A new strain of the HTLV (AIDS) virus has recently been discovered and is called the HTLV-IV virus.

Are you testing for this new strain of AIDS virus?

Is the test for this new strain in addition to the tests currently performed or will it replace the current testing mode?

Is the test for this new strain more or less expensive than the former test?

What is the average cost per test?

Answer. The Department of Defense is not currently testing for the presence of antibody to HTLV-IV. Reports from the Centers for Disease Control (CDC) indicate that the first case of AIDS caused by this virus was diagnosed in December 1987. Also, HTLV-IV specific tests on sera from 22,699 persons, including 8,503 randomly selected blood donors, failed to reveal HTLV-IV infection. The anti-HIV-1 enzyme immunoassay (EIA) tests currently used for screening all military blood donors are estimated to detect 42 percent to 92 percent of HTLV-IV infections. CDC continues to monitor the frequency of infection. Because the modes of transmission of HIV-1 and HTLV-IV are similar, preventative measures for these related viruses are the same.

Question. A current method of treating various symptoms of AIDS, is the use of AZT.

Are the Services prescribing AZT?

Are the military pharmacies carrying AZT?

What is the cost of AZT and what is its effect on the medical—especially pharmacy—budget?

Answer. Military pharmacies carry and the Services prescribe AZT. The cost of AZT per patient per year is estimated to be between $7,000 and $8,000. The Navy spent approximately $200,000 for 30 patients for AZT during March 1988 to January 1989; the Army spent approximately $800,000 for AZT during fiscal year 1988; the Air Force spent $53,000 for AZT during calendar year 1988 at Wilford Hall Medical Center, the sole Air Force hospital staging HIV seropositive Air Force personnel, and approximately an additional $30,000 through the Air Force supply system for AZT. Military pharmacies have always been required to stay within their budgets when faced with costs for new medications for a variety of diseases and conditions and the Service pharmacies request increases in their budgets as required.

Question. What is the current and fiscal year 1990 funding for AIDS testing, treatment and research?

Answer.

[In millions of dollars]

	Current fiscal year 1989	Fiscal year 1990
Testing	29	29.5
Research	27	0

Treatment costs in military treatment facilities are not maintained by disease category. Based on our estimated costs for staging HIV positive service members and treating patients with AZT, we can approximate an annual cost of about $9,000,000.

[CLERK'S NOTE.—End of questions submitted for the record.]

WEDNESDAY, MARCH 8, 1989.

MEDICAL PROGRAMS—DEPARTMENT OF THE NAVY

WITNESS

VICE ADM. JAMES A. ZIMBLE, MEDICAL CORPS, DIRECTOR, NAVAL MEDICINE AND SURGEON GENERAL

INTRODUCTION

Mr. MURTHA. The committee will come to order.

This afternoon we have Vice Admiral James A. Zimble, Director, Naval Medicine and the Surgeon General of the Navy.

Admiral Zimble, we welcome you and look forward to your testimony. We have had great concern about Navy medicine. Some of the Navy facilities that I have visited because of troop requests and because the former Secretary requested it, are in terrible shape. We talked about this with the Surgeon General, Dr. Mayer this morning, and I went into some detail then. He spoke very highly of you. He thinks that you are on the right track and that you are doing an outstanding job.

I am still concerned that we are moving awfully slow, and that we are not making the progress we should.

He gave us an example this morning. He was a doctor with the Navy and a young mother brought in her child at 2:00 in the morning. He said that the child had a temperature of 101 and he didn't feel that was out of the ordinary, but the mother was 17 years old, her husband was at sea and he recognized that she should have brought the child in even though it wasn't a serious illness.

From what I have seen at some of the places, if a mother brought the child in she couldn't get into the hospital because we don't have the personnel there.

I hope you will talk about the problems overall in Navy medicine in addition to Long Beach, and tell us what you are doing in trying to rectify them. Maybe working together, we can help speed up the process.

Your entire statement will go into the record.

SUMMARY STATEMENT OF ADMIRAL ZIMBLE

Admiral ZIMBLE. Thank you for the opportunity to speak with you today, and discuss Navy medicine. I think it is important that we do get adequately resourced to take care of those for whom we have great responsibilities.

I couldn't agree more with Dr. Mayer in that analogy that he drew. Speaking as an obstetrician-gynecologist, I made the point that to support the fleet we not only have to take care of the man on duty in a carrier listening for that submarine, we also have to take care of his wife and child at home so he can concentrate on his job and not be worrying about them. The best retention for the active duty military is for them to know that they are getting the compassion and the support they should get from Navy medicine. There is no stronger advocate than I for that endeavor.

I have prepared a lengthy statement which describes our accomplishments and our frustrations over the past year and discusses the objectives in detail for fiscal year 1990.

First, thanks in no small part to the efforts of this subcommittee, and you in particular, Mr. Chairman, especially in your visit to Bethesda with me about a year ago—and I invite you to return there to see tangible evidence of a change in operational tempo—but more importantly, your visit to some of the hospitals that have a lower priority, like Long Beach. I appreciate that.

FISCAL YEAR 1990 BUDGET REQUEST

The budget you are considering includes funding for those programs that are vital to our continued improvement. We need to continue investing in contracting. That is not my preferred solution, but it does keep the patients in the system.

We want to continue with our initiatives for the health care finder program. That was an Air Force initiative that I thought was super. It is the way to go and I am not too proud to emulate sister Services when they come up with good ideas.

I am continuing to rebuild the physicians assistant program, a program that was allowed to attrite to unacceptable numbers, and included in that is the initiative to convert our warrant officers to medical service corps officers. That process is imminent.

We are hiring 118 additional medical technicians to help us improve efficiencies for clinical support for our physicians and nurse practitioners.

We are asking for funding for an additional 150 medical scholarships, which are absolutely essential to support our physician base. This is what puts our uniformed providers into our pipeline.

Additional billets are not a major item in this budget because I can't fill the billets I have.

RECRUITING AND RETENTION

The recruiting is about the same. It has improved a little bit, but we need to improve it some more.

Retention is my major problem, especially of physicians and nurses. The present inducements are not sufficient to cause physicians and nurses to join us in the numbers that I would prefer, or to stay with us for a career.

At the direction of the Congress we have been working with DOD to study these issues and make recommendations to you as to how best to structure the compensation packages. The current package, the package that was issued for this particular year, has a very large problem for us. I am not optimistic about the most recent recommendation and hopefully we will have a chance to review those issues in some depth here.

CONTRACTING

Contracting for me is a double edged sword. Our doctors and nurses frequently work along side contracted physicians and nurses who receive much better compensation, better working conditions, and without any of the military obligations that our uniformed providers have.

Let me tell you about Rear Admiral Higgins, the Medical Officer of the Marine Corps. He received the following advertisement:

> Forming nine physician family practice group for military population. Net compensation will be a minimum of $120,000 (base plus incentives). Physicians will cover weekly clinic hours from 7:30 a.m. to 4:00 p.m. No weekend or evening clinics.

It is very hard for me to compete with that.

Mr. MURTHA. One hundred twenty thousand——

Admiral ZIMBLE. One hundred twenty thousand. That is base pay plus incentives for a 40 hour week without weekends or nights, and no jeopardy to go to sea, no requirement for any readiness training, no requirement to deal with any of the quality assurance issues or meet any of the commitments that we are required to do, and when I don't have physicians that make over $100,000 a year it is extremely difficult to compete.

Our mutual challenge, Mr. Chairman, as prudent fiduciaries of this enormously complex, but absolutely essential system, is to find a blend of health care services alternatives that serves our patients in a way they inarguably deserve and allows us to continue to serve the operating forces of the Navy and Marine Corps, our primary mission.

I thank you for the opportunity to appear. I stand by to assist you in providing answers.

Thank you, sir.

[The biographical sketch and statement of Admiral Zimble follow:]

VICE ADMIRAL JAMES A. ZIMBLE, MC, USN

Vice Admiral James A. Zimble is the thirtieth Surgeon General of the Navy and Director, Naval Medicine.

Admiral Zimble was born October 12, 1933, in Philadelphia, PA. After spending his formative years in Little Rock, AR and Bala-Cynwyd, PA, he graduated from Franklin and Marshall College, Lancaster, PA, with a Bachelor of Science Degree and received his Medical Degree from the University of Pennsylvania School of Medicine in 1959. He served in the Naval Reserve as a medical student from 1955 to 1959.

After serving a rotating internship at the U.S. Naval Hospital, St. Albans, NY, from 1959 to 1960, Admiral Zimble attended the Deep Sea Diving School, Naval Gun Factory, Washington, DC; the Officer's Basic Course and Special Radiation Control and Health Physics Course, U.S. Naval Submarine School, New London, CT; and nuclear power training at the Nuclear Reactor Prototype, West Milton, NY.

Admiral Zimble was subsequently assigned to the USS JOHN MARSHALL (SSBN-611) as the plank owner medical officer of the Blue Crew. In 1963 he received Submarine Medical Qualification. Follow-on assignments included: OB-GYN staff, Naval Hospital, Camp Pendleton, CA (1966-1970); OB-GYN staff, Naval Hospital, Philadelphia, PA (1970-1972); Chief, OB-GYN Service and Director, Clinical Services, Naval Hospital, Lemoore, CA (1972-1976); Director, Clinical Services, Naval Regional Medical Center, Long Beach, CA (1976-1978); Commanding Officer, Naval Regional Medical Center, Orlando, FL (1978-1981); The Medical Officer, U.S. Marine Corps (1981-1983); Fleet Surgeon, Commander in Chief, U.S. Atlantic Fleet, with additional duty as Command Surgeon, U.S. Atlantic Command and Medical Advisor to Supreme Allied Command, Atlantic (1983-1986). In February, 1986 he reported to the Office of the Assistant Secretary of Defense (Health Affairs) as Deputy Assistant Secretary of Defense (Strategic Planning and Medical Program Management). He was be promoted to the rank of Vice Admiral and assumed the duties as Surgeon General of the Navy and Director, Naval Medicine on 1 July 1987.

Admiral Zimble completed his residency training in Obstetrics and Gynecology at the U.S. Naval Hospital St. Albans, NY, in 1966. He is a Diplomate of the American Board of Obstetrics and Gynecology, a Fellow of the American College of Obstetrics and Gynecology, a member of the American Medical Association, the Association of Military Surgeons of the United States and the Inter-Agency Institute for Federal Health Care Executives.

His military decorations include the Defense Superior Service Medal, Legion of Merit (three awards), the Defense Meritorious Service Medal, the Meritorious Service Medal, the Navy Commendation Medal, and the Navy Meritorious Unit Citation.

Admiral Zimble is married to the former Janet Bailey of Westfield, NJ. They have two sons and four daughters.

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COMMITTEE

STATEMENT OF

VICE ADMIRAL JAMES A. ZIMBLE, MEDICAL CORPS

UNITED STATES NAVY

DIRECTOR, NAVAL MEDICINE AND SURGEON GENERAL

DEPARTMENT OF THE NAVY

BEFORE THE

SUBCOMMITTEE ON DEFENSE

OF THE

HOUSE APPROPRIATIONS COMMITTEE

MARCH 8, 1989

NOT FOR PUBLICATION
UNTIL RELEASED BY THE
HOUSE APPROPRIATIONS
COMMITTEE

6 MARCH 1989

Good afternoon Mr. Chairman and members of the committee.

I am Vice Admiral James Zimble, Medical Corps, United States Navy, Director, Naval Medicine and Surgeon General of the Navy. Thank-you for the opportunity to appear before you today to discuss Navy healthcare and the critical Navy medicine items in the Fiscal Year 1990 Defense Budget Proposal.

This Statement will describe the state of Navy healthcare, identify some areas where we have made significant progress since this time last year, and highlight some of the more pressing issues with which we need your help.

I would like to clarify before starting that all of the budget figures which I will be covering today are from President Reagan's budget submission.

We have some good news. We have made steady progress toward eliminating shortfalls in deployable medical units, the linchpin of our wartime medical readiness. Our quality assurance programs have documented the high quality of the care we provide. We are now implementing our second generation quality assurance program that will streamline and improve our efforts. Most importantly, Navy people still tell us that they prefer to receive their healthcare in Navy facilities; from Navy providers.

All is not good news, however. I regret to say that the likelihood of our beneficiaries' continued access to the system they prefer is fading. We are having ever greater difficulty attracting and retaining high quality people. Our shortage of healthcare personnel is worsening. Mr. Chairman, less than 20 percent of the Navy physician specialists stay with us 5 years after they reach their "stay or leave" decision. This has serious implications for our training programs in that we are experiencing an unacceptable dilution of our experience level. Our good, young physicians are without the counsel and wisdom of senior physicians—attributes which are developed after years of experience. These startling statistics make it crystal clear that we must improve retention.

These losses engender most of the initiatives you will hear today; initiatives directed towards attracting good people and retaining those good people who are now serving.

I must also tell you at the outset that mine is not a "gloom and doom" assessment or a "sky is falling" plea for help. We have serious problems that require sober analysis and treatment. But they are treatable; and with modest, not huge investments. We need your commitment to work with us for the long haul.

Overview of Navy Medicine

The Navy healthcare system exists to provide prompt and effective medical care to combat forces in time of conflict and to maintain the health status of active duty members in peacetime. Successfully accomplishing this mission contributes directly to the Navy's ability to sustain combat operations.

During peacetime we provide healthcare services to authorized beneficiaries using resources that will be needed during war. Dependents of active duty personnel and retirees and their dependents are provided healthcare to the extent resources will permit. Although our active duty personnel must receive first priority for medical services, it is by providing care to the remainder of our beneficiary population that our physicians gain the greatest experience, thus enhancing the Navy's ability to retain its quality professionals.

Our direct care system consists of hospitals and clinics managed through Medical Commands. The Naval Medical Command is responsible for the operation of 33 hospitals in the United States and overseas (four of which are comprehensive teaching hospitals and another four are family practice teaching hospitals), 200 medical clinics, and 172 dental treatment facilities. These are exclusive of facilities on U. S. Navy ships or in organic Marine Corps units

The Naval Medical Command also oversees medical research, investigating issues which will keep naval forces healthy and able to carry out their mission. This is accomplished through the Naval Medical Research and Development Command in Bethesda, Maryland. The Medical R and D Command has the responsibility for the Naval Medical Research Institute, Naval Health Research Unit, Naval Dental Research Laboratory, the Naval Medical Research Units, the Naval Biodynamics Medical Laboratory, the Naval Submarine Medical Research Laboratory, and the Naval Aerospace Medical Research Laboratory.

Also under the aegis of the Naval Medical Command are the Naval Aerospace Medical Institute, the Navy Ophthalmic Support and Training Activity, the Naval Medical Data Services Center, the Naval Medical Materiel Support Command, the Navy Environmental Health Center, and the Naval Health Sciences Education and Training Command. The Navy Environmental Health Center is the Navy's equivalent of the Public Health Service's Centers for Disease Control. It is responsible for tracking infectious disease, for preventive medicine measures, and for environmental and occupational health.

The Naval Health Sciences Education and Training Command (HSETC) operates the Naval School of Health Sciences and Hospital Corps schools. HSETC trains medical personnel and oversees outservice and inservice training programs.

We do people repair. This is maintenance, an essential logistics function with amazing similarities to the mission the shipyards perform; only more intricate, a lot more personal, and much more personnel intensive. Fifty-one thousand active duty and civilian Navy medical department personnel are available to staff our facilities as well as meet the operational requirements of the Fleet and Marine Corps. While these personnel represent fourteen percent of the Navy's officer end strength and six percent of the Navy's total active duty and civilian end strengths, our staffing levels fall short of the burgeoning healthcare demands. Over three and one half billion dollars are spent annually to fund our various activities.

Paradoxically, while 75% of our facilities are underutilized due to staffing shortfalls, nearly one third of this sum pays CHAMPUS claims

. For the past several years patient workload has been shifting from in-house to CHAMPUS. Navy outpatient visits decreased 21 percent and admissions 17 percent between FY-85 and FY-88. CHAMPUS outpatient visits increased 78 percent and admissions 42 percent over the same period.

Five factors contributed to this shift in workload:

o A changing beneficiary population. Department of the Navy manpower has increased 12.8% since 1980. Not only has the active duty population grown in size, its composition has changed. Active duty members are more likely to have dependents and the retired personnel and their families are becoming increasingly older requiring more intensive and expensive healthcare for illnesses of longer duration.

o The impact of our quality assurance program. In the early 1980's the Navy intensified its quality assurance (QA) program. While the QA program has, unquestionably, improved the quality of our services, it has drawn providers away from the delivery of care.

o Ever present operational requirements. Navy healthcare providers must also support extensive forward-deployed operational requirements. Fully 14% of all Navy physicians and 28% of all hospital corpsmen are assigned to afloat Navy or deployed Marine units.

o The increasing cost to deliver healthcare. The Navy faces the same systemic financial pressures faced by the private sector. Specifically, medical inflation is significantly greater than increases in the Consumer Price Index. The in-house portion of the medical budget has not fully reflected this higher inflation rate, resulting in restricted in-house workload capability. In addition, advancing medical technology requires continual investment in state-of-the-art equipment and techniques. New capabilities lead to new demands without any noticeable reduction in prior demand.

o The advent of new requirements. Recent initiatives such as performing pre-physical fitness exams, conducting HIV testing, and treating HIV positive individuals have reduced the amount of healthcare that could otherwise be provided. Students with special needs in the Department of Defense Schools are particularly deserving of our services; however, support for this very small population has required the investment of significant resources.

The shift from in-house treatment to CHAMPUS created many problems. Concomitantly, other pressures developed due to fiscal and policy decisions. As a result we have experienced extraordinary medical personnel recruiting and other personnel problems, skill training shortfalls, obsolete equipment, and poor facility utilization. The most significant areas of concern are addressed below.

o Navy's Graduate Medical Education Program (GME). GME plays a crucial role in recruiting talented medical personnel into the Navy and retaining them with the offer of training for a medical specialty (e.g., general surgery). Navy GME graduates are also the primary source of wartime critical skills physicians. The shift in workload from in-house to CHAMPUS limits the number and variety of cases referred to the teaching facilities thus reducing the range of training experienced by the physicians under instruction. Problems with retention of senior, experienced medical personnel put our graduate medical education programs in grave risk.

o Financial impact on beneficiaries. Retirees and their dependents, survivors, and active duty dependents can obtain healthcare from a Navy medical facility for a nominal cost ($8/day) or obtain the necessary care in the private sector. The provider or the beneficiary can seek payment/reimbursement from CHAMPUS. CHAMPUS will pay up to 80% of the allowable charges above the deductible, while the beneficiary pays the balance. The recently approved catastrophic care provision limits each family's annual out-of-pocket expenses to the deductible, plus $10,000 for retirees, or $1,000 for active duty dependents. However, expenses below this amount place considerable strain on the budgets of retirees living on fixed incomes and junior sailors and marines with families to support.

o Navy's financial burden increased. The Navy must pay both in-house and CHAMPUS healthcare costs. Since the government cost of providing care under CHAMPUS is greater than providing that same care in-house, the overall cost to Navy has increased as the CHAMPUS costs have grown. Indeed, CHAMPUS costs increased 46% from 1985 to 1987.

o Reduced morale and retention. The inability of Navy medicine to provide balanced in-house care to its beneficiaries has affected morale and retention within the Navy Medical Department and may well become an issue for the Navy and Marine Corps in general. Beneficiaries are frequently frustrated with the current state of Navy medicine. As you might imagine, it is extremely frustrating for a trained medical provider to be unable to perform simply because of a lack of resources.

The Navy has taken a number of steps to improve Navy medicine during the last two years. The FY-88/89 Navy Medical Plan, submitted to Congress in July 1987, sought congressional support (subsequently approved) for future medical end strength growth and a major peacetime contracting program which grew from zero in FY-87 to $16.2M in FY-88 and $88.7M in FY-89. For FY-90 we seek $138.7M.

The Navy also recognized problems associated with the physician recruiting process. Remedies included streamlining the administrative processing of physician applications from over one year to less than 90 days, adding more recruiters, and increasing recruiting incentives for physician accessions. Our initial results are promising

The Navy developed a long-range Medical Strategy in September 1987 to improve use of existing facilities through additional peacetime contracts, more NAVCARE clinics, and new Fleet Surgical Teams to minimize disruptions caused by operational needs. Despite a constrained fiscal environment Navy has made resource allocation decisions for FY-90 through FY-94 which allow significant progress in executing this strategy.

Another significant effort to attack medical personnel issues was the formation of a Medical Flag Level Steering Group to assess declining retention. This group recommended several compensation changes for nurses and physicians, some of which were addressed in the FY-89 Defense Appropriation Act. Others are under consideration.

While we still face serious problems, I am optimistic about our ability to solve them. The source of my optimism is the investment made by the line Navy and our Secretary. I am pleased to report that the Navy line leadership has taken on our problems with resolute determination to be a full partner in solving them. Admiral Edney, the Vice Chief of Naval Operations, has taken a hands-on approach to helping us solve our problems and has made it perfectly clear that a problem in Navy Medicine is his problem. The most immediate tangible result of this position is that management talent at the highest levels throughout the Department of the Navy is being brought to bear on fixing Navy Medicine.

BLUE RIBBON PANEL

In May 1988 the Secretary of the Navy established a Department of the Navy Medical Blue Ribbon Panel (BRP) to recommend actions that would improve access to Navy hospitals and clinics for all beneficiaries, reduce the dependency on the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), and revitalize Graduate Medical Education. The objective was to achieve these results through better use of Navy hospitals and clinics, while providing the necessary capabilities to meet Navy and Marine Corps wartime medical requirements.

The Vice Chief of Naval Operations chaired the Blue Ribbon Panel. Other members of the Panel included the Assistant Secretary of the Navy (Manpower and Reserve Affairs), the Navy Surgeon General, a senior Marine Corps representative, and the most senior Navy line officers responsible for logistics, financial management, and manpower. The Panel also included a prominent civilian physician.

The Panel studied several important Navy Medical Department management issues including: (1) Organization and Management; (2) Clinical and Operational Medicine; (3) Manpower, Personnel and Training; (4) Contracting; (5) Budget Execution; and (6) Equipment Procurement and Maintenance. These task forces identified specific topics, formulated alternatives, and prepared final recommendations on 76 issues. Six general conclusions emerged from the findings of the Task Forces:

o Navy medicine must focus on increasing its in-house capability through optimal use of existing Navy hospitals and clinics. This will not only reduce CHAMPUS costs but will also maintain wartime readiness.

o Navy medicine must assign GME top priority. GME remains the foundation of the Navy healthcare system. It must receive first priority manning for Navy's top physicians and other providers. A full and vigorous GME program safeguards both peacetime and wartime capability.

o Navy medicine must develop measures of effectiveness.
We have no truly effective means of measuring individual or system performance. We must implement approved criteria, establish a baseline, set annual goals, and track progress.

o Budget realities preclude adding unlimited dollars and end strength. Navy must carefully consider initiatives to improve Navy medicine to ensure cost effective solutions. Budget constraints preclude attempting to solve the problem by simply adding additional resources.

o We must document and communicate meaningful improvements in Navy medicine. This is needed to improve the perception of the Medical Department within the Navy and vigorously instill lost pride . The Department of the Navy must demonstrate to its Medical Department, sailors and marines, beneficiaries, and the Congress that visible changes can and will occur as a result of the Blue Ribbon Panel actions.

o Maintain the Blue Ribbon Panel and Flag Officer Working Group. While some Blue Ribbon Panel initiatives are already implemented, many will not reach fruition for a year or more. The Blue Ribbon Panel/Flag Officer Working Group will monitor the implementation of these initiatives pending subsequent review.

Some of these recommendations will require additional resources, money and people, to implement. We are investing in those initiatives that make good business sense; those which provide a reasonable return on investment. As the initiatives are implemented, the costs will be monitored and execution plans adjusted to implement as many initiatives as possible with the funds available.

Success of this effort, and the necessary improvements in Navy medical care, will require continued oversight to identify and solve medical problems. The Blue Ribbon Panel will monitor execution of these initiatives and address emergent issues.

The Blue Ribbon Panel has put in motion many actions which will improve access to Navy healthcare facilities, reduce Navy medical costs, and revitalize Graduate Medical Education. Some results have already been seen; others will take time to be realized. It must be recognized, however, that these are being done with only one goal in sight: to provide the best healthcare to all Navy beneficiaries.

We have already begun to implement prototype solutions based on many of these recommendations at the National Naval Medical Center, Bethesda, Maryland. The Medical Center is being made a center for excellence in Navy Medicine. As the management strategies we implement at the hospital prove successful they will be exported to our other hospitals. A Rapid Implementation Team composed of senior, tested, experienced medical and line officers is at work turning the situation at Bethesda around. They are eliminating the equipment purchase/lease backlog, hiring civilian personnel into vacant positions, and implementing contract nurse support at the hospital. Seven new records clerks have been hired and automated laboratory support to the wards has been increased. These are all initiatives we hope to export to our other hospitals. A long range planning office has been established at the medical center to encourage institutionalization of these changes. Innovations that work at Bethesda or other Navy hospitals will be exported to the other treatment facilities through the Medical Command and the newly established Management Assistance Teams. The teams are available to Commanding Officers to help analyze and solve problems.

MEDICAL DEPARTMENT PERSONNEL

Our personnel strategy is really quite simple. We seek to have motivated people performing the tasks they are trained to perform. Physicians will see patients; nurses will provide nursing care and train our corps staff; corpsmen will support all aspects of Navy Medicine; professional managers will manage our daily activities, and all qualified senior officers will be challenged to take on the leadership responsibilities of command. To accomplish our goals we must first recruit, train, and retain quality people. We are not winning this battle.

ONBOARD PERSONNEL

	FY88	FY89*	NET GAINS/LOSSES
Medical Corps	3929	3882	- 47
Nurse Corps	3068	2955	-113
Dental Corps	1679	1675	- 4
Medical Svc Corps	2534	2534	0
Physician Ast.	238	232	- 8

* End of January 1989

While we have essentially held our own with the medical corps so far this year, the nurse shortage continues unabated.

We have had variable success with meeting our recruiting goals.

RECRUITING SUMMARY

	FY88 GOAL	ATTAIN	FY89 GOAL	ATTAINED/PROJECTED
MEDICAL	150	84	241	55/100-120
DENTAL	81	61	90	60/60
MEDICAL SVC	141	206	273	87/175-200
NURSE	376	235	416	88/250-300

The up side of this chart is that we will do a little better, overall, this year than we did last year. The down side is that it is not likely that we will meet the more challenging goals we set for this year. This is not for lack of trying. Medical recruiting positions have been increased from 30 to 93. We are developing plans to streamline the process for recruiting for physicians. Essentially, we will adopt much of the program the Navy now uses to recruit nuclear power officers--a sort of one stop shopping for medical officers. Additionally, we are increasing our residency training programs and the number of Health Professions Scholarships. These programs will help us continue to ramp-up in recruiting. This in turn will make the work environment more attractive and positively contribute to our retention goals.

MEDICAL OFFICER RETENTION BONUSES

The Navy is experiencing a well documented precipitous drop in retention of high quality, specialty trained physicians needed to meet the rapidly increasing demand for medical care from active duty, dependents, and retirees. The FY-89 Medical Officer Retention Bonus was developed as a stopgap measure to retain unobligated, specialty trained physicians until legislation for a new physician compensation plan designed to attract and retain physicians on active duty could be developed.

The Medical Officer Retention Bonus, developed by ASD(HA) provided the highest bonuses to medical specialties with the largest pay differential between military and civilian net income. Physicians in primary care specialties (Internal Medicine, Pediatrics, Psychiatry, Pathology, Neurology, Family Practice, Occupational and Preventive Medicine, Aerospace and Undersea Medicine) where differentials from the civilian sector are less, were to be offered a much smaller bonus in the widely publicized ASD(HA) plan. Subsequently, the Department of Defense removed the retention bonus for all of these primary care specialties; the physicians who, in large part, manage our patients' care from their initial visits to subsequent referral.

In reviewing the need for a new medical compensation plan for FY-90 and beyond, DOD is studying the 1980 legislation, current peacetime and wartime requirements, medical officer retention trends, compensation levels for civilian physicians, and environmental factors affecting military physicians decisions to stay with or leave their respective medical departments.

Several other very positive steps have been taken to improve our accession and retention of physicians. First, we have increased the number of health professional scholarships from 1175 to 1200. This will allow us to continue to be highly selective in choosing students. We will be recruiting from the top of the market. We also plan to award 15 Navy Reserve Officer Training Corps (ROTC) scholarships in addition to the 15 Naval Academy graduates we place in medical school. All of these programs in combination should help us reach our goal of increasing physician end strengths from 3929 to 4505 over the next five years.

THE NURSING SHORTAGE

The effects of the physician shortage are compounded by a shortage of registered nurses. Like our colleagues in the private sector and other federal health systems, we are having a very difficult time recruiting qualified nurses. Our problems are exacerbated by our inability to retain them. As with our physician professionals, we find that we must improve the way we compensate our nurses. We are looking at various ways to solve this problem--some of which involve innovative and competitive recruiting programs and some of which are common-sense measures.

We have developed or are developing several programs which will help us attract more nurses into the Navy. First, we have increased the age of accession to 40 for active component nurses and up to 47 for reserve component nurses. Hopefully, this will help us attract civilian nurses who already have the skills and expertise we need in our medical treatment facilities. These are both actions we wish to continue. Secondly, we are including nurses in ROTC. We are revitalizing the medical enlisted commissioning program, which has a proven track record of attracting, and then retaining, high achieving corpsmen and dental technicians into the Navy nursing profession. We are also seriously considering adding a technical level of patient care provider to our present categories which brings associate degree nurses into our system. As you know, we have resisted recruiting into the Navy Nurse Corps any nurses who are not classified as "professional nurses", that is, registered nurses with baccalaureate degrees. I have concluded, and the Navy's nursing leadership agrees, that it is time to explore every possible alternative to our traditional approach. If very carefully managed, we might be able to achieve some real gains from a program which brings associate degree nurses into our system. The program must be designed to permit, encourage, and support these technical nurses to advance their careers through further education and through advancement in the Navy to full, commissioned status.

We are adding a new specialty for our corpsmen, the advanced care technician. The advanced care technician program will provide seasoned, qualified enlisted personnel advanced training in bedside patient care so they act as nurse extenders, providing nursing care expertise in most medical settings. Trained and supervised by nurses, the career track of these corpsmen will include progression, by further education, eventually to commissioning in the Navy Nurse Corps.

Another area of special concern is a situation which prevents us from taking full, and I think potentially substantial advantage, of the constructive service credit authority granted by Congress. Properly used, this authority would allow us to bring nurses into the Navy as lieutenants, or even lieutenant commanders. Unfortunately, we are effectively constrained in exploiting this authority by officer grade strength limitations.

THE ACCESS CHALLENGE

The manpower shortages and increasing support roles I have so far addressed affect our patients by decreasing their access to healthcare services in our facilities. This creates a serious challenge to the Navy to increase access to services without "busting the budget".

When we ask our people their views about the Navy healthcare system they respond in two ways. First, they say they much prefer to receive their care in Navy treatment facilities. Second, they tell us they can't get into the system--they don't have access to the care they seek. We have taken, and are continuing to take, a range of actions designed to significantly increase access to our system.

The NAVCARE clinics we initiated in 1987 remain a popular alternative to our own treatment facilities and help relieve the pressure on those facilities. In Fiscal Year 1988 we provided about 330,000 visits through these clinics at an average cost of about $60.00. The average cost of the nearly one million visits budgeted for fiscal year 1990 is just over $48.00. While there are no Navy uniforms working in these clinics, there are plenty of Navy families receiving care at them. Today there are ten active clinics, with Norfolk and San Diego each having two. These ten clinics are contractor owned and contractor operated. Beginning with the budget you are now reviewing, we plan to open contractor operated clinics in government owned facilities. These facilities will provide the same easy access and high quality services now provided in our contractor owned facilities, but, at a reduced cost to the government. The first of these will be located in Mayport, Florida.

We have also made progress using our contracting initiatives. Emergency room and ambulatory care service contracts have been established at 19 of our facilities. We are also contracting for other important primary care functions like obstetrics and gynecology services, family practice, internal medicine and pediatrics. These contract initiatives will provide an additional one million visits to our system, and free-up medical staff for other high workload areas.

Contracting has also given us some badly needed temporary relief from our nurse staffing problem. Fourteen nursing contracts have been awarded at several of our major hospitals. We have found that even though we may pay an individual contractor employee more than we might pay a sailor or civil servant to do the same job, we still save money by avoiding the costs we would otherwise incur in CHAMPUS. However, one of the biggest disadvantages of this type of contracting is that we have personnel performing the same functions being paid vastly different salaries. The paradox of contracting is that the solution becomes part of the problem. It is not at all unusual for a private firm with whom we have an active contract to recruit our physicians and nurses. Consider the following entreaty sent to one of our active duty physicians, Dr. Higgins, regarding a position at the Naval Hospital, Camp Lejeune, NC:

Forming nine-physician family practice group for military population. Net compensation will be a minimum of $120,000 (base plus incentives). Physicians will cover weekday clinic hours from 7:30 A.M. to 4:00 P.M. NO WEEKEND OR EVENING CLINICS. [Emphasis included by advertiser]

Dr. Higgins was offered a similar position at the Naval Medical Clinic, Norfolk, Virginia. By the way Dr. Higgins is Rear Admiral Higgins, Medical Corps, U. S. Navy, the Medical Officer of the Marine Corps. When I checked this morning, he still worked with us.

Our pharmacies are among our more popular and expensive services, demanding an inordinate portion of our resources. We are looking closely at demand patterns to improve both service and efficiency.

At San Diego, the pharmacy is one of the specific areas where we have effected improvements. We will open a branch pharmacy at the Naval Station on May 1st. This will be far more convenient for our patients and significantly relieve the congestion in the parking lot at the main hospital. In addition, we have increased the use of the operating rooms; surgical procedures are up and CHAMPUS costs are down. Our overall inpatient census is up also. The hospital has an average occupancy of 441 beds--up from 350 a year ago; the goal is 450.

Several innovative concepts have been implemented at Portsmouth Naval Hospital. We are taking advantage of the partnership program which allows us to bring providers in house and reimburse them through CHAMPUS. We are also working on establishing external partnership arrangements under which uniformed physicians provide services, such as surgery, to military patients in civilian hospitals. The physicians' fees are not billed to CHAMPUS, our physicians hone their skills, and our patients receive appropriate, timely care.

Similar partnership arrangements have been made at the Naval Hospital, Charleston, South Carolina. Additionally, Charleston is the site for the Navy Catchment Area Management demonstration. Our plan is being considered by the Office of the Assistant Secretary of Defense (Health Affairs), and we are confident it will be approved. We plan to see our first patient under the umbrella of the demonstration project on 1 October 1989. I believe this project foretells the future of military medicine. Local problems, and opportunities, will be solved/exploited by a management team intimately familiar with the local situation and under the direction of the hospital Commanding Officer.

At Camp Lejeune, the Commander is saving about $1 million in CHAMPUS costs through a variety of productivity enhancement initiatives. All staff meetings have been scheduled outside of patient care periods--making nearly 350 physician practice hours available for patient care. A well-baby clinic has been established and sees over 300 patients each week. A highly successful mental health service has been established. The new service avoids CHAMPUS costs, and provides badly needed mental health support services to Marine Corps families.

We are very excited about the model family practice hospital being set up at our hospital in Newport, Rhode Island. This is a real test of our ability to work with the private sector resources in our communities. The hospital will be the locus of outpatient and routine follow-up care for our patients. When they require hospitalization, they will be admitted, by Navy physicians, to what would otherwise be idle facilities at the civilian hospital in town. We think this makes a great deal of sense for all concerned.

MEDICAL READINESS

We have augmented our capacity to support the fleet with the development of Fleet Surgical Teams. Two teams have been assigned to each coast. When a team is not deployed it will be assigned to the hospitals in Portsmouth or San Diego. Each multidisciplinary team has 21 members. These teams relieve our hospitals of the burden of continually providing personnel for routine medical operational readiness support for planned deployments and removed one of our principal irritants, the need to pull people assigned to our hospitals and clinics to support routine deployments.

Our ability to support our combat forces medically in major conflicts or other crises rests in part on an appropriate inventory of deployable medical units (DEPMEDS). These units--the hospital ships and fleet hospitals--will give us the ability to provide medical support close to the site of conflict, the flexibility to tailor medical capabilities to mission requirements, and the responsiveness to provide medical care when and where it is needed. Strategically, they form the foundation on which our medical readiness and operational support is built and contribute in a very real sense to our overall defense posture.

The first of two highly sophisticated, state-of-the-art hospital ships, USNS Mercy (TAH-19), was delivered to the Navy in December, 1986. The second ship, USNS Comfort (TAH-20), was delivered in December, 1987.

The primary mission of the hospital ships is to have available a mobile, flexible, rapidly responsive afloat medical capability to provide acute medical and surgical care in support of amphibious and surface warfare task forces. The hospital ships can:

- Receive by means of helicopter or small boat transfer (while anchored) patients suffering from wounds, diseases, or other trauma;
- Provide onsite emergency and recuperative care to patients until they can be returned to duty or evacuated to fleet hospitals, overseas fixed medical facilities or to the Continental United States (CONUS) for further treatment;
- Provide 12 operating rooms and 1,000 beds and associated medical support per ship (80 beds for intensive care, 20 beds for recovery, 400 beds for intermediate care, and 500 beds for minimum care); and,
- Deploy within 5 days from issuance of sailing orders.

While awaiting the requirement for their service in an operationally related mission, the ships will be maintained in reduced operating status (ROS) in a CONUS port; USNS Mercy is berthed in Oakland, California and USNS Comfort is berthed at Baltimore, Maryland. While in ROS, the ships will be manned by a Military Sealift Command civilian crew and by a Navy cadre of medical and non-medical personnel; a total of 51 personnel. These personnel will become part of the staffs of each ship during periods of full operating status (FOS).

Within five days from issuance of sailing orders, the hospital ships can be fully ready for deployment. When in full operating status, the medical treatment facility will be manned with a staff of approximately 1200 personnel. These personnel will be transferred from shore-based commands, primarily Naval hospitals and dental clinics, to fill the billets when the treatment facility is activated.

The other major element of our deployable units is the fleet hospital. Nine of our fleet hospitals have reached initial operating capability. Four more will come on line this year giving us a total of 8000 beds ready for use. The first three fleet hospitals achieved initial operating capability (IOC) during FY 1987. Five additional hospitals reached IOC in FY 1988. Delivery of these facilities provides an additional 2500 deployable hospital beds.

Fleet hospitals will be prepositioned at or near the point of planned operations to help ensure quick activation. When prepositioned afloat, the hospitals will be placed aboard commercial vessels chartered by the Military Sealift Command. These vessels, used as floating warehouses, will deliver hospitals to designated ports when directed. Fleet hospitals positioned ashore will be warehoused in CONUS or overseas at specifically identified sites in host nations. Navy has aggressively pursued its host nation support program to establish firm agreements and dates for prepositioning fleet hospitals throughout the world.

The Defense Department's Fiscal Year 1990 budget request includes $39.4 million in military construction funds to build fleet hospital storage facilities. We urge your support of this critical link in the program.

As DEPMEDS come on line, training of our personnel to man the platforms becomes an important priority. Fleet hospital operations training is presented at the Naval School of Health Sciences, San Diego Detachment, Camp Pendleton, California. This course is designed to teach fleet hospital staff members the principles of hospital assembly and operations in a combat environment. To reach initial operating capability (IOC) at least 40% of the hospital staff must be trained. The remaining staff will be trained as soon as possible after delivery of each hospital. To the extent that resources permit, we plan to provide refresher training every third year.

MEDICAL READINESS STRATEGIC PLAN

We continue to work with the Office of the Assistant Secretary of Defense (Health Affairs) and the other Services on implementing the Medical Readiness Strategic Plan. Several significant action plans have already been completed. These include professional association agreements, military medical skills training, graduate medical education, combat casualty care course expansion, and wartime medical equipment purchasing items. In all, nearly sixty percent of plan milestones and tasks had been completed by December, 1988.

HIGHLIGHTS OF THE FISCAL YEAR 1990 BUDGET REQUEST

The budget you are now reviewing requests resources which are vital to our efforts to improve the Navy healthcare system. We plan to continue to invest in our contracting initiatives so we can increase access for our patients and avoid the costs of CHAMPUS. We will begin rebuilding the Navy's physician assistant program with this budget. Funds are requested to support 140 additional physician assistants who will provide basic level primary care health services to our people thereby relieving physicians to perform more complex medical procedures. With the implementation of our Healthcare Finder Program we will stop the cruel practice of "disengaging" our patients and begin the traditional medical practice of referring our patients to known qualified medical professionals who have the skills our patients require when we can not provide those services. We will be hiring 118 additional medical technicians to help us improve the efficiency of operations of our laboratories so that we can get needed test results to our clinicians in less time.

To help us attract physicians we request funding to support an additional 150 medical scholarships, and to support Navy graduate medical education faculty development through outservice training. These fellowships will help us create a mix of faculty subspecialties to meet accreditation standards.

I would also add a thought about another item which appears in Defense Agency Military Construction rather than Navy's budget--the replacement of the Naval Hospital in Portsmouth Virginia. Our hospital at Portsmouth is badly in need of replacement. The project has been economically studied and space planned for minimum essential needs that will allow us to recapture CHAMPUS referrals, continue to train our physicians in this intense clinical environment and, primarily, replace a facility that is in serious need of replacement. I urge your support for this construction project.

CONCLUSIONS

> Make no mistake about it, Navy Medicine was, and is, in a state of crisis--the solutions are complex and must be applied over the long haul with the focus of the entire Navy leadership team, the Congress, and the support of both our care providers and those provided for. There are no quick and no easy fixes.

That assessment by the Vice Chief of Naval Operations at a recent Naval Institute Seminar is one which I share.

We have set in motion the changes needed to fix our system for the long haul. The Navy line is fully committed to supporting us. The workload data strongly suggests that our patients are beginning to come back to us. We must have your continued support if we are to be successful. The budget proposal we are here defending requests only what we think we need to fix our system. I am committed to doing whatever is necessary to solve our long standing problems. The line Navy wants a medical support system they can once again put forward as a valuable benefit. The Navy and Marine Corps families that depend on us have been extremely patient and are beginning to benefit from increased access and the heightened morale of our providers. You and your colleagues have been very helpful. We are all grateful for that help. We now need your help with this budget.

Thank you again for your support and I look forward to working with you over the coming year.

PHYSICIAN COMPENSATION

Mr. **Murtha**. How much would the Admiral that you were talking about make today in the Navy?

Admiral **Zimble**. He is making less than I am. That means he is making around $90,000.

Mr. **Murtha**. So he would get an immediate increase of $30,000. He wouldn't work weekends and he wouldn't have the responsibility he has now. He would only have responsibility for the patients he sees, no administrative responsibility?

Admiral **Zimble**. Yes. Admiral Higgins is now the Medical Officer of the Marine Corps. That means that his responsibilities are to support the Commandant in assuring good, adequate medical support for all Marines, and their beneficiaries worldwide. He has a 24 hour a day job. He does it extraordinarily well. He can do far better than that, because he happens to be an ex-president of the Academy of Family Physicians and is a very highly regarded family physician who happens to be dedicated to Naval service.

FISCAL YEAR 1990 BUDGET REQUEST

Mr. **Murtha**. What is the Navy medical budget this year?

Admiral **Zimble**. The total medical budget is a little over $3 billion, almost a billion of which is CHAMPUS.

Mr. **Murtha**. What is that up from last year?

Admiral **Zimble**. It is not up a great deal from last year——

Mr. **Murtha**. In fact, it is negative growth, it is up 1.3 percent, but with Medical Services inflation which is a lot higher, it is negative growth?

Admiral **Zimble**. Yes sir. I can only say that some of that negative growth can be accommodated because we, with our contracting initiatives, will have a CHAMPUS offset. Contracting is less expensive than spending the CHAMPUS dollars. So by getting some kind of managed care by looking at the medical economic index and looking at more implementation of the DRGs, within the CHAMPUS arena, we probably can see a little bit less than the full inflationary growth of medical costs.

LONG BEACH NAVAL HOSPITAL

Mr. **Murtha**. Tell us about the Long Beach hospital. How it got into the shape it is in, and where you are going.

Admiral **Zimble**. Long Beach is where it is because it is in a metropolitan area that is well served with civilian medical facilities, whereas we have other hospitals that are located overseas—the four hospitals in the Pacific area, in Europe we have Naples, Rota, Sigonella, where the alternatives to care are just not available.

We have operating forces that take 25 percent of my total manpower that are attached to the Fleet Marine Force, and to the fleet. Then we have graduate medical education hospitals that are absolutely essential to being able to continue the pipeline and continue the retention of our physicians, recruitment of those physicians we get. So we must be able to staff them to meet the requirements of our civilian certifying agencies.

We have remote hospitals—Lemoore, 29 Palms, and other areas such as that, where there is no good alternative for our patients. That sort of sets the priority.

When we get to Long Beach I have run out of staff and other resources, which means we have to limp along and take more advantage of the civilian employment.

Mr. **Murtha**. I went to look at Long Beach because the Secretary of the Navy, who I would think would have some influence in the Navy, was so concerned about it. You have a real negative growth, which means you didn't ask for, or they didn't give you, more money. Is money the problem, or can't you work through the system?

Admiral **Zimble**. Money is part of the problem and getting it through the system means I have to compete with other sponsors. I have to say—I am not trying to tell you that I have to fall into line, but I have to tell you I have to be as concerned about that boiler technician who is standing a watch on the aircraft carrier and has to go into a two or three section watch and work arduous hours, because that is not healthy for him.

I have to worry about the manpower needed to support the fleet to ensure there is not too much family separation, because that also is an unhealthy situation.

I have to accede to the fact that the entire Navy mission is such that it is underfunded.

I would like to have new money. I would like not to have to compete quite as hard. So that makes it a problem for me.

FUNDING REQUIREMENTS

Mr. **Murtha**. Have you sent in requests that are substantially higher than what came over to us?

Admiral **Zimble**. Well, when I first came on board about a year and a half ago, one of the first things that happened is Mr. Webb handed me a memorandum the day of my assumption of command, and it said, "you have 90 days to assess Navy medicine and provide me with a separate plan."

I provided that plan in September 1988 and we went to the CNO Executive Board with that plan. I provided three alternatives. The highest cost alternative I did not get. The CNO had to make a judgment that to be balanced——

Mr. **Murtha**. You don't need to defend the CNO. Let's try to work on your problem. If you had had real growth, would you have gotten your request?

Admiral **Zimble**. Yes sir.

Mr. **Murtha**. So they cut you back substantially because of the priorities of the Navy. What proportion of your problem is the money, or how can you measure it so we have some idea. Let's take Long Beach. What do you have to have in order to solve the problem at Long Beach—I am not talking about Long Beach by itself, I am talking about all the problems to finally get something done a little faster at Long Beach?

STAFFING REQUIREMENTS

Admiral ZIMBLE. My number one need is secondary to money. It is personnel. I can best serve the Navy, I can best serve your Navy if I have providers in blue. Now, I have a total force of 42,000 that wear the uniform. About 12,000 officers, about 30,000 enlisted, about another 5,000 civilians. The end line strength of the Navy and the Marine Corps combined is a little bit larger than the Army's end line strength. The Army has 93,000 personnel to do the same job. So I need money indirectly to be able to support a larger end line strength in a way that doesn't take away from more sailors at sea.

Number two——

Mr. MURTHA. Let me get this straight. The Navy-Marine Corps personnel numbers end strength is the same size as the Army?

Admiral ZIMBLE. It is a little larger, sir.

Mr. MURTHA. And you have half as many non medical personnel as the Army?

Admiral ZIMBLE. Yes sir.

Mr. MURTHA. You have to provide for ships at sea and all these isolated stations?

Admiral ZIMBLE. Yes sir. I can give you some ratios. I can provide this for the record. For instance, Army Medical Corps has 65.5 doctors per 10,000 personnel. The Air Force has 65 per 10,000. The Navy has 48 per 10,000. That sort of ratio runs across the board and you are right, we have a greater dispersion factor. I have to put more doctors in operational commitments than the other Services in terms of numbers for long periods of time.

Mr. MURTHA. How long has this been going on? There must be some point where the Army kept building it up and you started reducing. I know the committee has assessed the situation. We figure at least 3,500 people short under any circumstances. When you say you have 42,000 personnel I assume that is below what you are authorized at 45.5, or something like that?

Admiral ZIMBLE. We are looking to go to 44,505 Medical Corps. When I say 42,000 I am talking about all corps, officer and enlisted. If you just look at the Medical Corps, my authorization this year is a little over 4,000, and I have 3,800 on board. So I am 200 under my authorized strength.

Mr. MURTHA. If I remember the figures right, you were 3,500 short in all your forces. In other words, Bethesda was short, Long Beach was short, nurses, administrative people, everybody. Is that an accurate figure?

Admiral ZIMBLE. I am not sure. The figure is probably closer to about 1,000 short.

Mr. MURTHA. Wait a minute. The Army has 93,000, you have 42,000 and you are only a thousand short? If you had a thousand people——

Admiral ZIMBLE. I could fill my billets. I can't do my job, I could fill my billets.

Mr. MURTHA. Who is limiting you in billets?

Admiral ZIMBLE. I get my fair share of billets from the Navy Military Personnel Command. This has gone on for a long, long time. I first discovered it when I was the Medical Officer of the Marine Corps in 1981.

FILLING VACANCIES

Mr. **Murtha**. We have got to have a base line here. We are trying to figure out how we get to the bottom of this problem. What is the base line, what do you need to start moving forward? How many can you use this year in the budget in order to help out, how many can you recruit, and what numbers can we add on in order to give you the numbers you need?

Admiral **Zimble**. I have to tell you, Mr. Murtha, that where we stand right now, the billet is not the issue. I can POM for billets in the enlisted community and I work closely with Admiral Boorda. I have a problem filling the billets I have empty today.

Mr. **Murtha**. Do you have the money to fill those billets?

Admiral **Zimble**. I need bonus money to fill those billets, sir. Most of those billets are Nurse Corps and physician billets and I have got to have more compensation. I can't compete.

RECRUITING/RETENTION

Mr. **Murtha**. That is something that we don't have jurisdiction over. We are going to ask the Armed Services Committee to review the Surgeon General study on medical specialist compensation. With Mr. McDade and myself maybe we can get help from you there.

Let's go beyond the bonuses and talk about under an ideal situation how many people can you recruit under the present circumstances? How many people can you recruit this year?

Admiral **Zimble**. I am saying I can't recruit——

Mr. **Murtha**. How many can you retain? We are trying to figure out how we can help here.

Admiral **Zimble**. Yes sir. I hear you loud and clear. What I would love to do is be able to retain the ones I have billets for.

Mr. **Murtha**. You have to have bonuses in order to keep those?

Admiral **Zimble**. I need a better working environment for all my people, which includes bonuses, clerical support, and administrative support. I need dollars for the clerical and administrative support and freedom to hire and manage the pay roll.

Mr. **Murtha**. How much money do you need then to get this started in the right direction?

Admiral **Zimble**. I would like to be able to provide that, with your permission, for the record.

[The information follows:]

I am improving the work environment with the $87.5 million Congressional plus-up provided for fiscal year 1989. Continuing this funding will continue its momentum in the right direction. This would cost an additional $66.1 million in fiscal year 1990 and $65.5 million in fiscal year 1991. This, however, does not include any consideration to implement lessons learned from Naval Hospital Bethesda throughout the system.

COMMAND SUPPORT

Mr. **Murtha**. Have we got command attention?

Admiral **Zimble**. Yes, sir. We are starting with the Secretary of the Navy, the CNO, the Commandant of the Marine Corps, the

Vice Chief. We have a blue ribbon panel made up of three stars. The leverage I have is that I can save the Navy money if I can do it in-house. That leverage is a very powerful one and that takes care of I would estimate 75 percent of the Navy medical enterprise that could be resulting in a decrement in the CHAMPUS bill.

Mr. MURTHA. The safety valve for the Navy Medical Service is CHAMPUS and CHAMPUS costs more. If you don't have the facilities they go to CHAMPUS and it costs the individual more as well as the government.

Admiral ZIMBLE. Yes sir. A prudent fiduciary would correct that. It would take years to correct it.

CAMP LEJEUNE

Mr. MURTHA. Would you talk about the Camp Lejeune situation and how that is coming along? They were waiting four or five hours at the NAVCARE center and we mentioned it to you. I have been told it is much better now.

Admiral ZIMBLE. We have tried a new approach at Camp Lejeune. We have brought a commanding officer down from Groton, who had initiated a "Groton Plan", and we said okay, it looks good, try it out. We have given him a few more resources, but he has done efficient things.

We also have given him a NAVCARE clinic there, contracted, which allows for a lot of referral base to come back into the system. We are expanding our patient medical services there.

Mr. MURTHA. Give me the facts. Are they waiting less time, and they are satisfied with the service? Is it better than it was?

Admiral ZIMBLE. Yes, it is better than it was.

Mr. MURTHA. Do you know what the averaging waiting time is now?

Admiral ZIMBLE. No sir, I don't know, but I would tell you that——

Mr. MURTHA. It is better, it is still an hour I hear under some circumstances.

Mr. McDade.

INCREASING PRODUCTIVITY

Mr. MCDADE. What is the "Groton plan"?

Admiral ZIMBLE. It is a plan that asks each physician to look at his productivity and try to measure, come up with some measure of effectiveness for that productivity by specialty. It says how much can I bring back, how much am I earning if I were in a for profit health care industry. How much am I earning vis-a-vis CHAMPUS. By trying to equate the number of visits, the time he spends seeing patients, counting his patients—not just to count patients, but counting patients in terms of what is the cost avoidance by that activity. That kind of feed-back to a physician is very helpful.

Mr. MCDADE. No new dollars, no new people?

Admiral ZIMBLE. No sir. It is scheduling some of our administrative time outside of patient care hours. For example, the commander increased 300 productive doctor hours per month just by rescheduling some of his mandatory meetings that had to occur.

Mr. MCDADE. Just by changing his meetings?

Admiral ZIMBLE. Yes sir. We have to have a large number——

Mr. MCDADE. Based on what you said to the Chairman in response to his inquiries, when you said you had a lot of shortages, it doesn't sound like you are solving the problem at Lejeune within your own resources?

Admiral ZIMBLE. We have given some resources to Lejeune but you are right, we can work more productively and we are doing that across the board. We still have shortages in total personnel.

Mr. MCDADE. You are saying that you have cured the problem by rescheduling a few meetings and doing other things that enable you to put more physicians in treating people and less in administration, is that what you are saying?

Admiral ZIMBLE. No. I am saying we are moving some of their administrative functions to a better scheduling. We can do a lot with better scheduling. We have promulgated the "Groton Plan" in a number of hospitals. I have a requirement, for example, for 162 obstetricians. I have 94 in the system. I am forced to contract for obstetricians in some hospitals because I don't have the Navy physicians to do it. I would rather have all my obstetrics being done by Navy obstetricians and family physicians. I am short of family physicians, and I have to be competitive in the marketplace for these people.

I can solve some of the problems with efficiencies, but I won't tell you that my total problem can be resolved by a rescheduling.

Mr. MCDADE. Obviously, when you respond to the Chairman's questions about Long Beach, there is more needed there than just moving efficiencies around. But when you did this at Camp Lejeune you did improve treatment within existing resources and it was a more productive use of the physicians?

Admiral ZIMBLE. Yes sir.

Mr. MCDADE. Is that going to be implemented at other places?

Admiral ZIMBLE. All of our facilities have copies of the "Groton Plan" and are asked to look at that among many innovations that we are trying.

Mr. MCDADE. Is the "Groton Plan" in your judgment the most important increase of productivity that you have seen, Admiral?

Admiral ZIMBLE. It was most effective at Lejeune. I won't say that we will see the same degree of dramatic change at some of our other hospitals. Some of our other hospitals have been working efficiently to begin with.

MEASURING PRODUCTIVITY

Mr. MCDADE. Have you got any kind of a standard by which you measure the productivity at the various hospitals?

Admiral ZIMBLE. That is a problem—determining what is a good means to measure effectiveness. We think that we are latching on to something with the idea of productivity in terms of dollars. We have a study—not a study—we are contracting to develop a decision support system that will give us that measuring tool that we need. We have very poor ways to measure effectiveness.

If you measure nonavailability statements that are provided, that isn't a great measure. We can measure the number of patients that we treat, but to try to get some qualitative measure that could give us a true idea of effectiveness, we are lacking that, and the decision support system which we are effecting a contract on this month to get started with a decision support system, is what we really need.

That was part of our strategy in September of 1987 that we recommended to the CNO. That was approved——

Mr. McDade. Last year?

Admiral Zimble. As a concept. It was validated by our blue ribbon panel that met and they validated that between March and May of this year. They have given us a green light on moving ahead with our decision support system. It is software. It will give me an immediate feed-back to providers, to hospitals. It will aggregate data for upper levels of management. It is an automatic data base. It will help with a reporting system to OSD and will be in consonance with the composite health care system that is being developed.

Mr. McDade. When will that be in place?

Admiral Zimble. It will take several years but the first stage we ought to be able to get in within a year. That will give us one or two modules. I can give you the full plan of action and milestone for that.

Mr. McDade. We think that it is a useful thing to do.

Admiral Zimble. The prototype building starts this month. We have awarded a contract for the prototype.

Mr. McDade. Is that covering just one hospital or——

Admiral Zimble. I am not sure exactly what that is going to cover.

Mr. McDade. Because we are looking for a system-wide——

Admiral Zimble. Absolutely.

Mr. McDade. Let us know when you are going to have that in place, will you?

Admiral Zimble. Yes sir.

[The information follows:]

NAVY MEDICAL DECISION SUPPORT SYSTEM

Phase	Start	End	Products
I	11/87	4/88	Orientation Seminar Decision Sup Systems. On-Site Visits—Echelons 1 to 4. Recommended Performance Measures. Functional Requirements and Demonstration of Executive Work Station. Data Administration Workshop. Recommendation for Scope of Integration: Select Two of Twelve Functional Areas. Report on Final Assessment/Organization & Information Flows.
II	4/88	10/88	Develop Data Flow Diagrams and Conduct User interviews for Functional Area No. One: Conduct Health Care Planning. Executive Workstation System/Subsystem and Data Base Specifications. Develop Entity Relationship Diagrams and Define Data Objects for Funct. Area One. Seminars and Workshops on Performance Measures. Issue MEDCOM Performance Measures Instruction. Develop Data Item Sets and Physical Model—Functional Area Number One. Prototype Executive Workstation Information Collection Module.
III	10/88	2/89	Repeat Phase II actions for Functional Area No. Two: Manage Human Resources. Prototype Executive Workstation General Reporting Module. Develop Global Model for Funct. Areas One and Two.

NAVY MEDICAL DECISION SUPPORT SYSTEM—Continued

Phase	Start	End	Products
IV	2/89	9/89	Develop Prototype DSS for Functional Areas One and Two. Develop Design Documentation and Write Specifications for Complete Implementation. Develop Source Selection Plan. Issue RFP for DSS. Develop Algorithms and Prepare Test and Evaluation Plan for Functional Areas One & Two. Start User Training and Documentation.
V	10/89	2/90	Test and Evaluate Prototype Functional Areas One & Two. Evaluate Results of Prototype. Update Design Documentation. Develop Procedures for Operational Environment. Revise/Update Data Administration Plan. Award Contract for Implementation, Operation and Maintenance.
VI	2/90	9/90	Implement Remaining Functions/Operate and Maintain DSS.
	10/90	9/91	

BLUE RIBBON PANEL

Mr. MURTHA. Admiral, in line with what Mr. McDade asked, your blue ribbon panel really didn't tell you anything you didn't already know, did it?

Admiral ZIMBLE. That was the line validating.

COMPARABILITY/USE OF RESOURCES

Mr. MURTHA. I knew it, and it only took me a visit to Bethesda. Everybody in the medical service knew it, so I know you knew it.

How can you give care to more people with only 42,000 people and the Army uses 93,000 people—are you using CHAMPUS more?

Admiral ZIMBLE. Yes sir.

Mr. MURTHA. Is it more expensive?

Admiral ZIMBLE. We are using CHAMPUS more, sir. The Army, of course, is running more large hospitals than we are.

Mr. MURTHA. You are taking care of people. You have got doctors on ships—that is not efficient, but you have to have them there.

Admiral ZIMBLE. Yes sir.

SHIFT IN PATIENT WORKLOAD

Mr. MURTHA. How do you measure this? You have got 42,000 people handling more patients than they do with 93,000—in other words, they have two times as many medical people as you do, so it has to cost you a lot more by using CHAMPUS per patient?

Admiral ZIMBLE. Yes sir. A lot of our Navy patients are seen in Army and Air Force hospitals.

Mr. MURTHA. Now we are getting to it. When we went out to Bethesda I said to you that Walter Reed said they were getting a lot of Navy patients at Walter Reed because Bethesda is not taking care of them. The Navy doesn't have the money to take care of Navy personnel adequately so you are not able to provide the care or the Army is way overfunded, one or the other, and it is obvious that the Navy is substantially underfunded.

Admiral **Zimble**. Yes sir.

Mr. **Murtha**. How do we correct that?

Admiral **Zimble**. I think we have started.

Mr. **Murtha**. You are going backwards. If you increase your budget by 1.3 percent and it is a negative growth——

Admiral **Zimble**. I mean I think we have started by having an open discussion and dialogue on that subject today, sir.

UNIFORMED SERVICES TREATMENT FACILITIES (USTFS)

Mr. **Murtha**. I was up in New York, and a Navy official there said they have a great contract with a local hospital. The local hospital charges $1,000 for every military-sponsored patient that comes in. If they go one time the hospital charges $1,000. If they go all year long it is $1,000. In other words, it costs a flat rate. That didn't sound too good to me, because I figure active duty personnel aren't going to be using the hospital that much and it didn't sound like that was a good deal for the Navy. What is happening up there?

Admiral **Zimble**. That is one of the Jackson amendment hospitals, sir. The USTF Bayley Seton in the Wadsworth area. We have others in the system. I don't remember how many of the USTF hospitals we have. But you are absolutely right, it is a per capita basis. The first time it is not an enrollment, the enrollment is your first visit. With a large transient population that is not a good deal. With a fixed population, it is okay.

Mr. **Murtha**. How much is the first visit?

Admiral **Zimble**. Twelve hundred dollars for active duty, seven hundred dollars for dependents.

Mr. **Murtha**. Who negotiated that contract?

Admiral **Zimble**. That is OSD, sir. It is DOD. The total cost for DOD in 1988 was $120 million. Our budget share was $39.7 million, and the fiscal year 1990, next year's budget will be $43.6 million. The workload is based on unduplicated users, not on outpatient visits or admissions.

Mr. **Murtha**. Would you say that the hospital has a heck of a deal here?

Admiral **Zimble**. Yes sir.

Mr. **Murtha**. Have you tried to do anything about it? Have you suggested that they negotiate a better deal? Have you worked anything out there? The Navy is paying like everybody else is as a user?

Admiral **Zimble**. One of the advantages of Navy now having to pay the CHAMPUS bill—and you know that is very recent. Up until last year the bill was paid in OSD and Navy had a neat deal. All the Services had a pretty neat deal. If we couldn't afford it we just paid the bill with somebody else's credit card. Now, we have the dollars and now the three medical services all have some leverage in trying to demonstrate that we can be more cost effective, and we are in that process. But we still have policy made and arrangements made for us that is not within our claimancy. Policy is made in OSD for CHAMPUS spending, and we pay the bill.

Mr. **Murtha**. Mr. McDade.

TRI-SERVICE COOPERATION/OVERSIGHT

Mr. McDADE. Thank you, Mr. Chairman.

Admiral, we had Dr. Mayer in today and he talked about the facilities in the Washington metropolitan area. He talked about Walter Reed, Bethesda, Andrews, having a hospital, one at Fort Belvoir, and one at Fort Meade. Did I miss any?

Admiral ZIMBLE. No sir, not for the hospitals. We have some clinics in Quantico and Annapolis.

Mr. McDADE. Do you sit down and discuss with your counterparts in the other Services the management of those hospitals?

Admiral ZIMBLE. First of all, I have a good relationship with the two Surgeons General. I appreciate having the commanders of the facilities sit down and talk with one another about their management. We have a CO at Bethesda that talks frequently and has good dialogue with the CO at Walter Reed and with the CO at Andrews. All three COs also participate in the Board of Regents meetings——

Mr. McDADE. Shouldn't there be a command over the hospitals in the metropolitan area?

Admiral ZIMBLE. I don't think that is necessary. I think if the three hospitals have adequate resources we will work things out.

Mr. McDADE. Do you think that is the best way to use resources, by staffing them all independently?

Admiral ZIMBLE. Yes. I think that Service identity is good. I think when we put in a command we put another layer in.

Mr. McDADE. The testimony this morning indicated that you would get better quality care if you had more coordination between the hospitals. Not an independent identity, but a merged effort to take care of the medical needs of the community. That is not happening—and we have as an example this metropolitan area right in the nation's capital.

Admiral ZIMBLE. Bethesda is less well resourced than Walter Reed, but by the same token, if we had better resources, we wouldn't be accused of dumping on Walter Reed. We can develop a good community relationship and establish a memorandum of understanding without another layer of command.

I am not sure that providing additional administrative overhead, when you need the resources at the patient care level, is helpful.

AVAILABILITY OF LOCAL RESOURCES

Mr. McDADE. Is there a health care finder in the metropolitan area?

Admiral ZIMBLE. It is being developed now, sir.

Mr. McDADE. You don't have it?

Admiral ZIMBLE. No sir. We are working on that.

Mr. McDADE. When are you going to have it?

Admiral ZIMBLE. I would say within the year. We have a rapid implementation team that has recently gone to Bethesda.

Mr. McDADE. If you sat down you know what resources you have in the metropolitan area.

Admiral ZIMBLE. I would prefer to find those resources that are going to give us reasonable discounting, those resources that we feel are quality resources, and use the system, and its interface with the civilian community very efficiently. I need to get resources in place that can do the health care finder job. I need to have people.

Mr. McDADE. You haven't done that in the metropolitan area, for example?

Admiral ZIMBLE. I have a new commander just recently instated. I recently did away with the National Capital Region GEOCOM, so we can develop more efficiencies. I have been able to follow a blue ribbon panel to recognize the problems in Bethesda and direct additional resources to Bethesda. I report to the VCNO and the Secretary of the Navy on the accomplishments that have occurred with our rapid implementation team that went out to Bethesda. It takes resources, and those resources are not getting put in.

Mr. McDADE. All the hospitals don't supply you with a sufficient resource base to care for the people there, with good quality care, is that your testimony?

Admiral ZIMBLE. No, sir.

ABILITY TO CARE FOR LOCAL POPULATION

Mr. McDADE. Let me ask you, do all the hospitals that we just spoke about and the clinics, are they not a sufficient medical resource in this area to take care of the population of this area eligible for care in a quality fashion?

Admiral ZIMBLE. No, sir, because we still have a lot of CHAMPUS out there. We still pay a lot of CHAMPUS dollars, so we are not taking care of all of it in-house.

Mr. MURTHA. You had two ICU units closed when I was at Bethesda. Are they open now?

Admiral ZIMBLE. No, sir. I was down to four beds. I am up to seven beds. I need critical care nursing staff to do that. Those things don't happen overnight. They take time.

Mr. MURTHA. I understand that, but we are trying to speed up the process and get better care, and at the same time, save the government money. We're trying to do more—what you are saying is that they are going to CHAMPUS. You are telling the Committee that it is the inefficient way of delivering services. It is not only inefficient, people would like to go to a military hospital. They feel more secure and comfortable there, but instead, they are going to CHAMPUS because we can't figure out a way to deliver the services more efficiently.

ABILITY TO PROVIDE RESOURCES

Admiral ZIMBLE. My commander at Bethesda would like additional—I think he initially said he needed another $30 million to do the job. He needs another $30 million. That is big time money. We are trying to get him some more, and we have delivered some more money to him. With some of the monies that were authorized for us last year, $87.5 million was the additional amount that was plussed-up to Navy medicine last year and I am very grateful for that.

The trouble is that that money goes away. That money is not reflected in the 1990-91 budget. We need some more new money to continue to tail out the $87.5 million that we were provided.

ADDITIONAL REQUIREMENTS

Mr. **Murtha**. That is what Mr. McDade and I are trying to get from you. We are not trying to get from you that the Navy cut you off, we are trying to find out what you need so we can help. You talked about Bethesda, what else do you need?

Admiral **Zimble**. Very shortly I am going to ask for another $90 million for my system for the remainder of this year to get the OPTEMPO moving. Ninety-one million dollars more.

Mr. **Murtha**. The $3 billion you asked for, you need an additional $91 million, and you think you can spend that efficiently, but you can't use more than that? In other words, if you had more you wouldn't be able to spend it?

Admiral **Zimble**. I am giving you the number given to me by the Commander of the Naval Medical Command as the dollar figure he plans to go into the midyear review with. I will bet you I could spend some more in order to take care of some base operating costs and some maintenance repair costs, but I would not like to give you a figure that I can't execute. I know I can execute the $91 million this year, but I would need a tail into succeeding years.

Mr. **Murtha**. Instead of a negative growth, what if we just went to no growth? What would that amount to? That would be $130 million—no, it would be more than that. To keep things even, according to the figures I have, you would need $1.8 billion just to keep things even.

Admiral **Zimble**. Okay. That is direct care system—that is about right.

Mr. **Murtha**. So you could spend $91 million more efficiently?

Admiral **Zimble**. Yes, sir.

Mr. **Murtha**. And you wouldn't turn any back next year, you would be able to produce some people, and if we get this bonus plan in, you could probably spend more money than that?

EQUIPMENT REQUIREMENTS

Admiral **Zimble**. Yes, sir. I need to tell you that some of it would go into other procurement, Navy appropriation—get to my backlog of equipment that I need to have on board. We will have at Bethesda shortly a Magnetic Resonance Imager, MRI, which we have not had. We have been trying to get one for two years. Magnetic resonance imaging costs us a great deal to do on the outside, and we have discommoded our patients. We have tried to find the bargain hours to buy MRI for our inpatients and that is from midnight to 4 a.m. in the morning.

Mr. **Murtha**. What is an MRI?

Admiral **Zimble**. Magnetic resonance imaging. We can buy it at half price if we go at the wee morning hours. So we have discommoded our patients to do that. We will get one shortly.

Mr. **McDade**. Will you be the first military hospital to have one?

Admiral **Zimble**. No, sir. Walter Reed has one. We will be getting one in San Diego. They are pretty chock-a-block. They use it pretty scantily. They also have a lithotripter.

Mr. **Murtha**. They don't have the technicians to keep it going around the clock?

Admiral **Zimble**. That is right.

Mr. MURTHA. The MRI, if I remember the expense, is two or three times as much if you get it done anyplace else, but we don't have enough people to operate it.

Admiral ZIMBLE. It will shortly be an absolute essential element for our residency program and the Medical Review Committee is not going to continue to certify our residents if they don't have an opportunity to use the latest in technology. It is a capital investment, and then there is a maintenance cost for having people, and people have to come under our dollars, so we have a ceiling on the number of people we can hire.

Mr. MURTHA. This procedure is so much less expensive than surgery. You bring them from all over the country. Is this the only one in the country?

Admiral ZIMBLE. No, sir, but the only one in the capital region is at Walter Reed. We have them in other areas of the country.

Mr. MURTHA. Mr. Miller.

TECHNOLOGY COMPARISON

Mr. MILLER. Thank you, Mr. Chairman.

Admiral, I heard you mention about the MRI, and the fact that you feel that you eventually will have one, and compared to the CAT scan, it is doing the same thing, but without as much radiation. Is the end result and the picture that much better than the CAT scan?

Admiral ZIMBLE. Actually different conditions are more amenable to doing by each one of those. They each have their strong points. They are not totally interchangeable in terms of diagnostic imaging. There is a place in medicine for both the CAT scan and the MRI, as well as some other very expensive imaging equipment. We really need a little of all of that in this day and age, and so I can't give you a simple answer to that question, sir.

CHANGING TECHNOLOGY

Mr. MILLER. If we go beyond the MRI right now, it seems like the change in technology is such that no matter what we purchase, we find that the technology has changed and ten days later, we wish that we had held off a little while in order to pick up the most modern, the most high tech piece of equipment that we could possibly find.

Admiral ZIMBLE. Mr. Miller, I would be the first to tell you that one of the things that is causing the escalating costs of medical care in this country today is the rapid expansion of technology, and I would not espouse being at the cusp of new technology. The CAT scan has been around for over 15 years. The MRI has been a proven state of the art standard of care for the last five years, and I think military medicine doesn't have to be on the cusp, but we need to remain state of the art, and to be within the standards of practice, or else we are not going to attract the very best providers, and we are not going to be able to maintain our residency programs.

I don't want to have the first MRI, but I want to be on board when they are off the shelf.

Mr. **Miller**. We want the best and we don't necessarily need to hold off the 100 days, but by the same token, I am bringing up the rapid change in technology as to what is the best thing to do because it is very expensive to purchase the equipment.

Admiral **Zimble**. If we find an extremely rapidly changing technology it is best to lease, and we look at those alternatives. I think the MRI now has reached a reasonably steady state. It costs us more to buy it, and we have to buy it. Even though we have a CAT scan at Bethesda, when we require an MRI in order to give complete diagnostic imaging capability, we have to buy it, and we have to buy it in Wheaton, Maryland. It costs more, and in the long run, we will have a cost savings with investment in MRI. So I think at that time there is an obvious tradeoff.

PHYSICIAN PAY PLAN

Mr. **Miller**. In another area, the Department recently submitted the health professional special pay study and plan for the implementation of the 1989 medical officer retention bonus, and this study indicates that military physicians' pay has not kept pace with physicians in the civilian sector. We have heard a number of complaints from physicians who are upset because they feel the study does not adequately compensate all categories of physicians. Would you care to comment on this study?

Admiral **Zimble**. I thank you very much for the opportunity to comment on that pay study. I am going to take credit for starting it about a year ago, when I recommended to the CNO that I needed to go and talk to some people on the Hill because we were falling further and further behind in compensation.

I just saw the figures for this year. The average net income before taxes for physicians in the U.S. is $135,000 a year, average net before taxes. I don't have any doctors that come close to that, yet most, if not all of my doctors are above average. So we are going to lose the fight more and more when it comes to compensation. The gap has gotten way too wide.

We went forward with a proposal the three Surgeons General agreed to, and it went forward through the system. It was supported by Dr. Mayer, but it didn't make it out of OSD. When it came out of OSD we lost two groups of physicians—specialists who were in primary care, who as far as I am concerned, are the very backbone of military medicine, the family physicians, pediatricians, the internal medicine people, among others—are what give the health care access to the vast majority of our sailors and Marines and they are absolutely essential for their retention.

They were left out, and as far as I am concerned, it was a terrible mistake, so much so that I have made a request back to my Secretary, each Surgeon General has made a request through his respective Secretary, to ask for a re-look at OSD. As far as I know both the Air Force and Navy Secretaries have submitted letters back to Mr. Taft and I believe the Army has as well. We need to compensate them.

Beyond that there is some legislative language in fiscal year 1989 that restricts the eligibility for some of our providers. There are two particular caveats in that language that I would like to see modified.

First, there is a requirement that the physicians have eight years of service before they are eligible. We can sometimes access a good surgeon into our Service who may only—who may be five years out of his residency and yet not have the eight requisite years. He may be working side by side with another surgeon who has less experience in the specialty but who is making substantially more money in surgery, for example.

I would prefer to offer the retention bonus to all specialists depending upon the years of experience. If they have had under four years, one level. If they have had over four years of experience within their specialty, another level, but not tie it to number of years of active duty in the military.

We also proscribed any bonus for those doctors who have more than a two year obligation. Any doctor who has an obligation beyond 1991 is not eligible for the bonus. Some of our best doctors who are ones who have made a commitment to us early, the doctor who does four years at the Naval Academy, then at the Uniformed University, is obligated ad infinitum, and to exclude him from the bonus because he is indentured to us already—I have one doctor whose obligation goes to the year 2000, but he is a superb doctor, and he should enjoy the same remuneration that his colleagues enjoy.

I would prefer to have obligations just accumulate and once the doctor had reached his 26th year of service, forgive whatever additional obligations he has. We have served our purpose, we have retained a career force, and I think that is what we are really after, an experienced careerist in our military.

Mr. MILLER. The estimated cost of this physician pay plan for 1989, as I understand it, is $29.5 million?

Admiral ZIMBLE. Yes, sir.

Mr. MILLER. Can you tell us what part of that the Navy would be eligible for?

Admiral ZIMBLE. Ours is about $8.5 million. But I would tell you that looking at the legislative mandates and restrictions, the fact that we are not paying that group 6 and group 7, it turns out that of the 3,882 physicians that I have on board today only 701 are eligible for the bonus, and so far, of those eligible for the bonus, only about 35 percent have elected to take it.

There are some features in this particular retention bonus that are very appealing to me. One is the multiyear contract. If I could have the stability of a medical force for strategic purpose that was going to be with me for four years for sure, in large enough numbers, I could do a great deal. The multiyear contract is marvelous for that stability. It is narrowing the gap, but is not comparable. That is, for the groups that were excluded.

So, I would ask that we waive the restriction for prior obligation, that we allow accumulated obligation up until a point in time when it could be forgiven and that we look at years of experience as a specialist as opposed to years of service within the Navy, and that we somehow include all specialists—I don't have any specialists that I don't need, I don't have any specialists that I can't provide good active patient volume and workload.

BETHESDA STAFF AND WORKLOAD

Mr. **Miller**. To give us a better idea of how things operate—because Bethesda is close by, how many personnel would it take to operate Bethesda? Do you have someone that would have that figure?

Admiral **Zimble**. Let me get that figure for you.

Mr. **Miller**. If you would for the record, and to give us a better idea and perspective, also how many patients and outpatients are served at Bethesda.

[The information follows:]

To operate Bethesda at its full capacity would require 641 officers, 1,032 enlisted personnel, 604 civilians and 298 contract full time equivalents.

The population served by the National Naval Medical Center by category of beneficiary is:

Category	*Number of beneficiaries*
Active Duty	25,665
Dependents of Active Duty	37,580
Retirees	16,645
Dependents of Retirees and Deceased	27,411
Total	107,301

These patients generated 16,462 admissions and 391,966 outpatient visits:

Category	Admissions	Outpatient visits
Active Duty	5,629	142,126
Dependents of Active Duty	5,071	105,576
Retirees	2,941	65,922
Dependents of Retired and Deceased	2,431	61,935
Other	390	16,407
Total	16,462	391,966

Mr. **Miller**. We might add another to that, which would be how many physicians are actually serving there.

Admiral **Zimble**. I would be happy to provide that for you.

Bethesda always gets high visibility—it is close to town. We made that the flag ship hospital for that very reason, so that other hospitals can steer by it. We have put a team out there to try to find efficiencies and when we find impediments, the federal acquisition regulations that are prohibiting us from growth, we find them at Bethesda, and then we are advertising those benefits to the rest of the hospitals in the system.

But Bethesda will probably be doing better than some of the other hospitals. San Diego has an OPTEMPO that is doing very well also. Portsmouth and Oakland will need a little bit more resourcing than we have for Bethesda, so with your permission, I would like to give you not only the data you asked for for Bethesda, but for the other hospitals in the system.

Mr. **Miller**. I think that would be very good.

[The information follows:]

Last year I asked the Commander, Naval Medical Command to tell me how many more people we would need to optimize the utilization of our facilities. The staffing requirements for our four largest teaching hospitals are provided below.

BIG FOUR TEACHING HOSPITALS REQUIREMENTS OVER AUTHORIZATIONS [1]

	Physicians	Nurses	Medical Service Corps	Physician assistant	Hospital corpmen
San Diego					
Authorized [2]	474	376	111	0	1,434
Additional Req	178	634	58	13	1,090
Total Req	652	1,010	169	13	2,524
Portsmouth:					
Authorized [2]	355	380	86	2	1,265
Additional Req	154	753	42	3	914
Total Req	509	1,133	128	5	2,179
Bethesda:					
Authorized [2]	383	345	150	5	1,060
Additional Req	146	525	34	2	875
Total Req	529	870	184	7	1,935
Oakland:					
Authorized [2]	247	229	87	5	674
Additional Req	102	380	12	6	255
Total Req	349	609	99	11	929
Total for big four:					
Authorized	1,459	1,330	434	13	4,433
Additional Req	580	2,292	146	24	3,134
Total Req	2,039	3,622	580	37	7,567

[1] FY 1988 Navy health care planning matrix.

[2] Military plus civilian.

The populations served and the amount of workload performed at the hospitals is provided below.

Hospital and category	No. of Beneficiaries
San Diego:	
Active Duty	99,985
Dep. Active Duty	101,454
Retired	41,484
Dep. Retired/Dec'd	67,333
Total	310,256
Portsmouth:	
Active Duty	100,357
Dep. Active Duty	117,080
Retired	25,685
Dep. Retired/Dec'd	49,579
Total	292,701
Bethesda:	
Active Duty	25,665
Dep. Active Duty	37,580
Retired	16,645
Dep. Retired/Dec'd	27,411
Total	107,301
Oakland:	
Active Duty	26,852
Dep. Active Duty	30,977

Hospital and category	No. of Beneficiaries
Retired	22,761
Dep. Retired/Dec'd	35,581
Total	116,171

The FY-88 inpatient and outpatient workload generated by this population, constrained by hospital resources, is as follows:

Hospital and category	Admissions	Outpatient Visits
San Diego:		
Active Duty	9,519	193,535
Dep. Active Duty	7,782	181,281
Retired	3,215	68,928
Dep. Retired/Dec'd	2,445	60,714
Other	264	4,905
Total	23,225	509,363
Portsmouth:		
Active Duty	12,771	211,953
Dep. Active Duty	8,358	155,155
Retired	2,141	47,501
Dep. Retired/Dec'd	2,080	48,369
Other	355	2,637
Total	25,705	465,615
Bethesda:		
Active Duty	5,629	142,126
Dep. Active Duty	5,071	105,576
Retired	2,941	65,922
Dep. Retired/Dec'd	2,431	61,935
Other	390	16,407
Total	16,462	391,966
Oakland:		
Active Duty	4,226	79,236
Dep. Active Duty	4,785	79,715
Retired	1,906	53,904
Dep. Retired/Dec'd	2,146	63,601
Other	114	1,852
Total	13,177	278,308

HOSPITAL CONSTRUCTION, NAPLES

Mr. MILLER. Could you tell us about the status of the Naval Hospital at Naples, Italy?

Admiral ZIMBLE. It has been in need of replacement probably since we occupied it. Naples Hospital is a hospital that we rent. It was originally designed as a hotel and never occupied as a hotel. It sits in the middle of a crater, a volcanic crater. There has been seismic activity until several years ago, and there was some structural defects as a result of that.

Patient flow is very poor in that area. We have been wanting to replace that. Project Pronto—which is an oxymoron, if you ever heard one—that was to give us a new hospital in an area north of

Naples. We have not been able to get the land for that project. It was to involve not just the hospital. We now have a site for a replacement facility——

Mr. MURTHA. Let me ask you, Dr. Mayer said the reason you couldn't get the land is because the people that owned the land had a lobbying group and they lobbied Members of Congress, is that correct?

Admiral ZIMBLE. Yes, sir.

Mr. MURTHA. Who did they lobby?

Admiral ZIMBLE. I can't answer that.

Mr. MURTHA. Did they in effect block this from happening?

Admiral ZIMBLE. The area was called Capua. It turns out that there are multiple owners of land up there. I don't have all the details, but trying to deal with all the intricacies of real estate in that country has been difficult for many reasons.

We now have a site at the Capodachino Airport. We have plans for a 47 bed facility to be put there. It is in the 1990 POM now. That is OSD money, that is Defense Medical Facilities Office. But the money is there, and so we plan to build.

Air Force is also building a hospital in Italy at Cretone.

Mr. MILLER. We have a command center there. I guess we are not in a session where we can talk about that, but at least we are aware that it is located there.

Admiral ZIMBLE. Yes, sir.

Mr. MILLER. I think everybody in the world possibly is aware of that, without getting into detail.

Admiral ZIMBLE. That all goes to Capodachino.

Mr. MILLER. There was a move on that also. Are we talking about moving that to the same location where the new hospital would be?

Admiral ZIMBLE. That is correct. The Capua site is no longer available. The new site is the airport, which is a commercial airport.

Mr. MILLER. This is in a volcanic area?

Admiral ZIMBLE. It is in an earthquake prone area. It is a little more removed from the volcanic area than it is now. It is in an area that has not been active for four years. It was reasonably active four years ago. In the hospital, we have a seismic instrument located in the overhead to measure any momentum in the movement in the hospital. So far, so good.

Mr. MILLER. That isn't going to solve the problem but you can indicate what took place. What does the record show—has there been action?

Admiral ZIMBLE. Yes, there has been seismic activity, the last three or four years ago.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. MURTHA. Maybe we should have a seismic measurement to see if we get any movement in this hospital renovation, because we are moving about as slow as NATO in getting these things straightened out.

Admiral ZIMBLE. That is in the budget. That is one of the military constructions that we want to protect.

Mr. MURTHA. It is in this year for next year?

Admiral **Zimble**. Yes, sir. I visited that hospital for the first time when I was Fleet Surgeon for the Atlantic Fleet and as far as I am concerned, we are very poorly serving our people in the Mediterranean with referral hospitals and most of our people we send up to Central Germany to the Army and the Air Force hospitals.

LACK OF PROGRESS ON FIXING PROBLEMS

Mr. **Murtha**. In line with what you are saying about our people there, Dr. Mayer made an eloquent statement this morning about the services of the Medical Corps throughout the various Services. He talked, as I mentioned earlier, about serving the dependents overseas. Of course my experience was in the Persian Gulf. Our people are concerned about their dependents back at home.

Admiral **Zimble**. Yes, sir.

Mr. **Murtha**. It has been frustrating to me that it has taken two years to get to the point where we are beginning to recognize these serious problems.

It looks like the Navy has asked for 4,400 additional people, with 300 officers going to the Medical Corps, is that adequate?

Admiral **Zimble**. For the Medical Department, yes sir.

Mr. **Murtha**. Do you feel you could recruit those 300 people this year?

Admiral **Zimble**. In the military with the appropriate compensations, yes sir.

Mr. **Murtha**. We are going to try——

Admiral **Zimble**. I need some very careful thought given to the nurses. They are in a situation the doctors were in many years ago. The marketplace is driving and we need to be competitive.

Mr. **Murtha**. We understand that and we are going to recommend to the Armed Services Committee they take a hard look at it.

Admiral, I really think we haven't moved fast enough. I appreciate your testimony, but it worries me that we send people overseas, put them aboard ship, station them overseas, and they have to worry about their dependents getting medical care. That is just not acceptable and we have to move as quickly as we can to rectify this situation.

INCREASING EFFECTIVENESS/LOWERING COSTS

Admiral **Zimble**. The best of all possible worlds for me is putting everybody in a blue uniform. The second best is being able to contract, because we can go for good bids, and we can do better with contracting than we can with CHAMPUS. We are devoting a lot of dollars toward contracting. It is not the best way to go, because those contractors are recruiting some of my people, but given that, we have to make fast fixes in the short term I have to keep the contracting dollars viable and growing.

One nice thing about a contract is I can turn that off after a period of time when my other resources come on board. But in the short run, I am going to have to use both contracting and incentives to retain my physicians.

CONTRACTING EFFORTS

Mr. **Murtha**. One other thing we would appreciate your answering for the record, and we have a number of questions for the record, is about these contracts like the one I mentioned in New York. I realize that is not your responsibility, but we would appreciate any recommendations you would have as Surgeon General of the Navy about how we can get a better deal. And we will ask the Surgeon General the same question.

Admiral **Zimble**. Yes, sir.

[The information follows:]

As you know we were not part of the negotiations to establish this contract. Therefore, I am reluctant to comment extensively on the result of negotiations the basis of which I have only very limited and general knowledge. I can tell you that the very fact of USTF existence adds another variable to an already complicated equation. In the Navy, we now have a growing record of successful, cost-effective, contract arrangements. These kind of arrangements quite naturally lend themselves to a degree of flexibility—through the competitive process—not inherent in the process of negotiating with a Uniformed Services Treatment Facility.

Mr. **Murtha**. We were unable to schedule time with the Army and the Air Force Surgeon Generals. However, they have submitted testimony for the record. Additionally, we will have other questions for the record. The committee is adjourned until 10:00 tomorrow morning.

[Clerk's note.—Questions submitted by Mr. Dicks and the answers thereto follow:]

NURSE SHORTAGES

Question. How are determinations made in the mix of nursing services provided by uniformed personnel, federal civilians, and contract employees? I note the services are increasing their contracting for nurses significantly, although they label this as a temporary solution. Is this an indication that they are not a preferred option, but because of our inability to recruit and retrain uniformed or civil service employees they are frequently the only option we have?

Answer. The number of Nurse Corps officers is based on wartime requirements. Once that requirement is met or if insufficient Nurse Corps officers are available, civilian registered nurses are hired. When civilian nurses are not available within the local community, contract nurses are brought onboard. Contract nurses are not the preferred alternative—Nurse Corps officers and civilian registered nurses are less costly. Though we are developing contracts for nurses at several hospitals, we are continually monitoring the local communities for civilian nurses. Where feasible, we will convert contract funds to civilian personnel funds.

Question. At Bremerton, you are contracting entire departments and wards, how does this integrate with the in-house system? How do costs compare with taking steps to make it possible to execute in-house?

Answer. Naval Hospital, Bremerton is currently only contracting for Emergency Room and Acute Care Services. They have a full service contract for these areas which includes physicians, nurses, and adminstrative personnel. There are no contracts for other nurses at Naval Hospital, Bremerton.

While other hospitals are contracting for nurses (San Diego, Portsmouth, Camp Pendleton, Oakland, Bethesda, Jacksonville, and Charleston), none of the facilities have contracted an entire ward. The contract nurses are integrated with the Navy and civil service nurses.

Question. What has been the experience when contract health professionals work side by side with uniformed and federal civilians? Are there cross recruitment pressures and problems with pay disparities?

Answer. Although there is a conscious effort to limit the sharing of responsbilities from a contract evaluation point of view, there are instances where uniform and contract employees work side by side. Cross-recruitment problems were anticipated and in the case of physicians and nurses pay disparities do occur to a limited extent.

[CLERK'S NOTE.—End of questions submitted by Mr. Dicks. Questions submitted by Mr. AuCoin and the answers thereto follow:]

CHAMPUS CHOICE DEMONSTRATION PROJECT

Question. The Department of Defense has announced that as of October 1, 1989, Kaiser Foundation Health Plan, of Portland, Oregon, will no longer provide the CHAMPUS Choice program for active duty dependents, retirees and their dependents. It is my understanding that the beneficiaries of this demonstration program were very pleased with it. I also understand the sailors and their dependents of Navy ships that undergo repair and overhaul in Portland are disappointed with the loss of this care. Admiral Zimble, would you tell the committee when this program started, and do you believe that the loss of this health care option will have a negative impact on those active duty sailors and their dependents in Portland and also the Navy retirees in the area? What options would they have left for quality medical care?

Answer. The CHAMPUS Choice Demonstration Project, initiated on 1 September 1981, was designed to test the feasibility of allowing CHAMPUS beneficiaries the choice of receiving benefits through a prepaid health plan or using standard CHAMPUS.

An external evaluation of the project provided a number of important findings. It found that beneficiaries will enroll in a capitation plan if the price is right and that beneficiary cost share was among the most important factors influencing enrollment. All of the capitation plans provided preventive care and inpatient care for free or for nominal charges but provided less than standard CHAMPUS comprehensive mental health benefits. Of significance was the finding that a capitation plan may cost the government more than the current fee-for-service program. Economic incentives induced some beneficiaries who had not historically represented a cost to the CHAMPUS program to enroll in CHAMPUS CHOICE, thereby incurring government expenditures in the form of a premium payment. There is some evidence that some families actually dropped other health insurance in favor of CHAMPUS CHOICE.

There are 2,248 families presently enrolled in CHAMPUS CHOICE with 4,559 members. 72 percent are retirees and their dependents, 28 percent are active duty dependents, active duty personnel are not covered by CHAMPUS. The 4,559 members represent 14 percent of all CHAMPUS eligibles in the Portland area. This leaves 86 percent of eligible beneficiaries who are not enrolled in CHAMPUS CHOICE, but are receiving quality health care.

The following is a breakdown of charges per year for all eligible beneficiaries and enrollees in CHAMPUS CHOICE.

Year	CHAMPUS eligible basic program	CHAMPUS CHOICE
1981	$263	$398
1982	268	513
1983	276	490
1984	251	565

The CHAMPUS Choice project cost the government more than twice the cost of the basic CHAMPUS program. Because of these costs, the program was found to be not cost effective and was therefore terminated.

GRADUATE MEDICAL EDUCATION PROGRAM

Question. Your Blue Ribbon Task Force report mentions that one of the more significant problems in retaining physicians is due to the lack of a strong Graduate Medical Education program. What steps have you taken since the report was issued to improve GME? Have you measured the results?

Answer. We have taken several important steps to improve our graduate medical education (GME) programs. Steps related directly to GME include increasing the number of first year students by 15 this year with a goal of adding 35 more for a total increase of 50 GME-1 positions. The faculty profile for all of our programs has been completed so we have accurate, timely information about all of our teaching staff. The Surgeon General and Commander of the Naval Medical Command have also become much more active in the GME selection board process. Several actions not directly related to GME are gradually improving the clinical practice environment thereby, hopefully, helping us retain qualified, experienced faculty. This also frees up physician and nurses time and allows us to admit more patients and see more patients in the outpatient clinics. The additional clinical material is vital to increasing our GME program output.

HOSPITAL PERFORMANCE STANDARDS

Question. The report also cites a lack of standards to measure the effectiveness of Navy hospitals and clinics. What progress towards establishing and measuring clinic and hospital standards have you made and what are the most serious shortcomings you found?

Answer. One part of the Decision Support System currently under development is to establish performance measures appropriate to Navy Medicine. The short term goal is to develop measures using existing reporting requirements, putting measures which required additional data collection on the long term list. A Navy Performance Measurement Instruction has been drafted that outlines in detail the criteria by which Navy Medicine will begin to be measured. No standards have been set. This will occur once the system is automated by the Decision Support System, the data entry problems are resolved, and analysis of the data completed. An advance copy of the Performance Measurement Instruction was distributed to our field activities in January 1989. The instruction institutes performance measurement on a voluntary basis until the Decision Support system comes on line in fiscal year 1990. This gives the commands an opportunity to become familiar with the measures and how they can be used as a management tool as well as an opportunity to clean up their data entry. The latter is the more pressing problem.

STAFF SHORTAGES

Question. What steps are you taking to reduce the administrative burdens on physicians?

Answer. With the $15 million received from Congress for clerical support in fiscal year 1989, our commands have been given the authority to hire additional support staff in clinical and clerical areas. Additionally, part of the $15 million has been used to retain civilian positions that were targeted for release as part of the military substitution. The civilian positions are needed because the skills are not capable of being substituted with non-medical enlisted personnel.

Question. I understand that one of the best ways to free physicians up for more demanding medical work is the use of physicians' assistants. The task force recommended bolstering this program. What has been done to do so and do you need additional funding for this program? They are seeking 140 additional physicians' assistants in the budget—is that enough to make a significant impact next fiscal year?

Answer. The Navy is pursuing a dual course of direct and inservice procurement, as well as hiring civilian physicians' assistants. We have enhanced the Navy physicians' assistants program by establishing a commissioning opportunity to Medical Service Corps beginning in fiscal year 1989. Offering a commissioning option will enable the Navy to be competitive with the other Services. At present physicians' assistants are Warrant Officers.

The Navy PA community will increase to 300 by fiscal year 1991 and the in-house training program will begin in September 1989. Training will be held at Naval School of Health Sciences, San Diego, California, and will train between 20 and 25 physicians' assistants per year. Commissioning in the Medical Service Corps will take place upon graduation.

Funding has been requested in the fiscal year 1990 budget to rebuild the civilian physicians' assistants programs. The President's budget shows that sufficient funding has been requested for 140 civilian physicians' assistants in fiscal year 1990 for naval hospitals.

Funding is adequate for these programs.

Question. Another way to assist physicians and improve quality care is by providing better trained hospital corpsmen. What have you done to improve the HM (Hospitalman) "A" school program? Have you been able to boost assignments to the "C" schools to increase the number of medical technicians needed by the Navy? Do you have adequate funding to improve Corpsmen training?

Answer. The length of Hospital Corps "A" school has been increased from 10 to 14 weeks. The curriculum has also been changed from a task based curriculum to a combination of task based and cognitive skills training. Rather than train a hospital corpsman who performs a task from rote memory, we also want our corpsmen to think logically through the task and understand just why each step is done. The instructional materials and time have been increased for Anatomy and Physiology, Basic Mathematics, Emergency Medicine, Pharmacology, Medical Decision Making, Basic Medical Ethics, and Patient Education.

Since summer 1987 we have made significant improvements in not only filling our "C" schools but increasing the quotas in those schools where quotas were the factor limiting the number of technicians we could train. The courses for which quotas were increased are:

New Quotas	*Number*
Respiratory Therapy Technician	28
Pharmacy Technician	40
Operating Room Technician	54
Basic Laboratory Technician	53
Advanced Laboratory Technicians	24
Otolaryngology Technicians	26

Selected Reenlistment Bonuses (SRB) were increased or added to:

FY 1988: Advanced Laboratory Technicians—increase; Pharmacy Technician—increase; Psychiatry Technician—added; Operating Room Technician—added/increased; Respiratory Therapy Technician—added/increased; Otolaryngology Technician—added; Urology Technician—added; Basic Laboratory Technician—added.

FY 1989: Submarine Medical Technician—added; Advanced Hospital Corpsman—added.

Special Duty Assignment Pay (SDAP) was increased in fiscal year 1988 and fiscal year 1989 for Submarine Medical Technician and Advanced Hospital Corpsmen.

MEDICAL EQUIPMENT SHORTAGES

Question. What is the status of your equipment needs? Do you have enough funding in the budget to upgrade to state-of-the-art equipment?

Answer. Inadequate equipment funding is having a negative effect on our ability to accomplish the Medical Department's mission. Old equipment is becoming increasingly difficult and expensive to maintain in operating condition. The increased equipment downtime and the inherent inefficiencies in out-dated equipment threatens the quality of care. The quantity of care we can offer decreases because of the increased equipment downtime and a failure to fully exploit the labor saving efficiencies of modern equipment and technologies. It is likely that the need to work with less than state-of-the-art equipment has a deleterious effect on retention. The lack of certain pieces of equipment places additional pressure on graduate medical education programs to provide required experience in other ways. Some procedures that could be performed for less cost in the direct care system are purchased in the private sector through CHAMPUS or supplementary care programs at higher costs.

Several actions have been or are being taken to remedy this situation. The Blue Ribbon Panel is studying equipment purchase procedures and looking for equipment purchases with good return on investment. Where purchase is not possible leasing is being used to bring equipment on-board. The Medical Department is taking better advantage of the Navy's Productivity Enhancement Investment Program. To date $230,000 worth of equipment has been funded through this program.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin. Questions submitted for the record and the answers thereto follow:]

PHYSICIANS IN ADMINISTRATIVE POSITIONS

Question. The report which accompanied the fiscal year 1988 DoD Appropriations Act included a requirement for all Services to reduce the number of physicians in administrative positions by 10 percent.

Has the Navy reduced the number of physicians in administrative positions by 10 percent from the 1988 level? If not, why not.

Answer. The Navy has not decreased the number of physicians in administrative positions. We have approximately 400 administrative positions for which physicians may be assigned. At the end of each fiscal year, an audit is completed to determine the number of physicians assigned to administrative positions.

We believe the number will remain relatively constant at 90 physicians, which is approximately 2 percent of the Medical Corps inventory. This number is justified if you consider the positions which are included in the category—surgeon general; other medical corps flag officer positions; physicians in positions of commanding officer or executive officer at medical treatment facilities; staff positions which require medical officer expertise, such as force medical officers with SURFLANT and AIRLANT; physicians on the staff of the Navy Medical Command, such as the coordinator of graduate medical education; physicians assigned to our geographic medical commands; and those physicians assigned in support of the Assistant Secretary of Defense (Health Affairs).

Physicians assigned in the management of the Naval Medical Department are needed to train and acclimate other physicians for administrative responsibility. Before attaining flag rank, it is necessary for physicians to have been assigned to positions which prepare them for increasing levels of responsibility and leadership and to have been evaluated in these positions.

Question. Please provide the number of physicians in administrative positions for FY 1987, 1988, 1989, and 1990. Also please provide the average regular military compensation for physicians in administrative positions.

Answer. The number of physicians in administrative positions as of 30 September of each fiscal year is:

Fiscal year:	
1986	140
1987	80
1988	92

1989[1]	90
1990	N/A

[1] As of 31 March 1989.

Fiscal year 1989 and fiscal year 1990 figures are not known at this time because we do not budget specifically for physicians in management positions.

The average compensation for physicians in administrative positions is $88,118. This amount is calculated by developing a profile for a Captain of the Medical Corps with over 26 years of service. This amount includes base pay, BAQ, BAS, variable special pay, board certified pay, and additional special pay. Not calculated into the compensation is the entitlement allowed for Incentive Special Pay and the Variable Housing Allowance. These entitlements vary significantly depending on the officer's training and the cost of living in the area to which the officer is assigned.

BASE CLOSURE AND REALIGNMENT

Question. Admiral Zimble, the Report of the Secretary's Commission on Base Closure and Realignment recommended for closure one of your facilities, the Naval Hospital in Philadelphia.

Based on the Commission's report, are there other facilities which you believe will be affected?

Answer. Whenever one of our facilities or an Army or Air Force hospital closes, Navy and Marine Corps personnel (active/retired and dependents) living in the area will be affected. It appears that Navy medical care expenses will increase as a result of closures of Letterman Army Medical Center (Naval Hospital Oakland and CHAMPUS), Pease Air Force Base (Naval Medical Clinic Portsmouth and CHAMPUS), and Chanute Air Force Base (CHAMPUS).

Question. Are you reviewing the situation to determine the best way to provide alternative care for retirees in these areas?

Answer. Yes, we are reviewing alternative means of providing care to Navy personnel and their families in affected areas. Our principal concern, for the moment, is the Philadelphia area, but, we are also examining the impact of other base closures and transfer of missions and personnel to bases remaining open.

Question. We understand that there is currently excess capacity in local hospitals. Do you plan to explore the possibility of developing agreements with these local hospitals to treat beneficiaries?

Answer. We are looking at many different alternatives in the Philadelphia area. Two economic analyses have already been completed and a third will be conducted based on the current situation and the impact of the base closures in the area. One alternative we will certainly examine closely is establishing agreements with local hospitals.

Question. Do you plan to redistribute the medical equipment and staffing to your other facilities to increase their workload?

Answer. Yes. We do intend to redistribute personnel and equipment.

VA/DOD RESOURCES SHARING AGREEMENTS

Question. Admiral Zimble, the Department has approximately 140 agreements with the Veterans Administration. DoD pays VA for supplying over 1,500 services, from surgical care to pediatrics.

These agreements are developed at the local level and allow the hospital commander to contract with a local VA hospital to provide care that cannot be provided in the military facility.

In fiscal year 1989, the House Armed Services Committee directed DoD to start using CHAMPUS funds to increase the number of sharing agreements, anticipating that this action would reduce CHAMPUS costs. The Senate Armed Services Committee and this Committee did not agree to that approach due to the inability to audit these agreements and the uncertainty of the impact on a military hospital's efficiency.

We have the Administration's position based on an OMB response to GAO, but we would like your personal opinion on these sharing agreements. Please share your opinion with us.

Answer. The Navy works with other federal agencies to meet federal healthcare objectives. Examples are the National Disaster Medical System and the Veterans Administration/Department of Defense Health Care Resources Sharing. Just as the divisions of any major firm work together to achieve the corporate goal, despite their competition for corporate resources, the Navy works with other federal agencies in order to achieve federal goals set forth by Congress and the President. The objective of VA/DoD sharing is to enhance access and quality of care from the overall federal system, without reducing access or quality available to beneficiaries of any part of the system. I believe the sharing agreements we have are beneficial to the Navy, the Veterans Administration, and, most importantly, our beneficiaries.

Question. What do you believe will be the long-term impact of these agreements? Is it possible that the two systems would be merged or that DoD funding would be used to subsidize the VA?

Answer. I anticipate that access to health-care and the quality of that care will be enhanced for all our beneficiaries. The VA also provides a contingency capability for combat casualty care which is mandated by the same Public Law 97-147 that authorizes VA/DOD resources sharing. It is in the interest of DOD to encourage and maintain familiarity with the VA's contingency capability. In addition, the tangible and intangible costs of obtaining healthcare goods and services from the VA are often less. The time and effort involved in establishing and maintaining sharing agreements is less than those required to establish and maintain contracts or other commercial agreements. It is appropriate that two federal agencies should be able to deal with each other more easily and efficiently than with non-federal entities. However, merging the two systems or using DoD funding to subsidize the VA could prove detrimental to both systems. The Navy and the federal healthcare systems are better off sharing goods and services to accommodate each others specialized needs or temporary excess capacities and shortages. Access to care and overall federal healthcare is enhanced.

Question. How many agreements does the Navy have with the VA in which the VA is providing care to DOD beneficiaries? What is the total cost of these agreements and what cost savings have been verified?

Answer. There are approximately 200 sharing agreements in which the VA is provider. Total Navy payments to the VA have ranged between $7 and $9 million over the past three years. This amount does not reflect total costs associated solely with the resource sharing program. It includes reimbursement at the interagency exchange rate for care provided to active duty members and for treatment of retirees. It does not reflect the value of services exchanged for other services. Due to the small amount of money involved, the cost and difficulty of accounting for non-cash transactions, and the intent of the law (to have VA/DOD sharing operate in a decentralized manner), we do not maintain a separate cost accounting system for VA/DOD sharing. The VA accounts indicate that they received a total of $1.2 million in fiscal year 1988 from the Navy for sharing.

STAFF SHORTAGES

Question. Pay is not the only dissatisfier for military physicians. We understand that there is a serious shortage of nurses and support staff, including administrative personnel. Due to these shortages, hospitals are not operating efficiently and physicians are frustrated in their desire to increase patient care.

In your opinion, what occupations are experiencing the most severe shortages?

Answer. Two general categories represent the majority of civilian occupations that are considered critical and have the greatest shortage: clinical support and clerical support provided to our healthcare practitioners. Clinical support includes nurses (RNs and LPNs); ancillary support personnel in pharmacy, laboratory, and x-ray; clinical psychologists; and family advocacy/social work personnel. Clerical support includes ward clerks, administrative nursing assistants, and medical file clerks. The universally voiced concern is that the shortage of support personnel affects not only the productivity of military medical treatment facilities but, more importantly, contributes to retention problems with physicians.

Question. Do you plan to submit legislation to address these shortages?

Answer. Rather than legislation, the $15 million that Congress added to the fiscal year 1989 appropriations has helped immensely. Our commands have been authorized to hire additional support staff in the clinical and clerical areas discussed. We do need to ensure than enough funds remain available to prevent a recurrence of the staffing shortage.

Question. In the Committee's version of the fiscal year 1989 DOD Appropriations bill, we included a provision which would have given DOD the authority to pay prevailing wage rates for certain health care professionals. This provision was subsequently deleted on the House floor. Do you think this is a valid way of addressing health care staff shortages?

Answer. A federal agency may request and receive from the Office of Personnel Management the authority to pay special rates to selected employees, depending on the wage rate for certain areas. This authority is preferable to the authority granted under Title 38 because it can be administered using the existing general schedule pay structure, obviating the need for administering two pay systems—one under Title 5 and one under Title 38. However, the process for obtaining OPM approval either needs to be streamlined or delegated to the agency head.

NAVY BUDGET REQUEST

Question. Admiral Zimble, your statement includes interesting projects and programs for fiscal year 1990, all designed to increase the level of care provided in Navy facilities. The Committee is encouraged that the Navy is increasing its emphasis on medical care for their active duty personnel, beneficiaries, and retirees.

Considering the Navy's new emphasis on medical care, why does your budget for medical care increase by only 1.3 percent over the 1989 current level?

Answer. The deletion of the $87.5 million one time congressional add abnormally deflates the growth of baseline medical care in the fiscal year 1990 budget. If the $87.5 million is excised from the fiscal year 1989 column, the growth into fiscal year 1990 is approximately 2.8 percent. These include the Medicare Economic Index, healthcare contracting, NAVCARE/GOCO, and the CHAMPUS reform initiative contract. These new initiatives are expected to generate sufficient savings to fund Navy medicine.

Question. When consideration is given to inflation, this 1.3 percent growth is at least a 4 percent negative real growth. Why is the Navy allowing the medical budget to decrease when the demand is not being reduced?

Answer. The fiscal year 1990 budget incorporates a more aggressive application of available funding to target programs with the highest rate of return resulting in the delivery of a greater amount of healthcare for the funding dollars available. These include Healthcare Contracting, NAVCARE/Contractor operated clinics, Partnership Agreements, the additional staffing purchased in fiscal year 1989 with the $87.5 million provided by Congress. The Healthcare Contracting will increase staffing and patient access to Navy treatment facilities resulting in better facility utilization and a reduction in CHAMPUS use. By developing a comprehensive program, the Navy will significantly reduce CHAMPUS costs. The Navy recognizes that the overall demand for healthcare is slowly increasing as the number of retirees and their dependents increases. We are trying to control the increases by funding the best alternatives in each catchment area to reduce costs while delivering quality healthcare.

Question. Your ambition to recuit new physicians is not going to be beneficial if you do not have the correct amount of funding to support this new staff. How much of your fiscal year 1990 budget of $877.9 million will be used to increase the support for your new physicians?

Answer. The support costs for new physicians are incorporated in healthcare contracting initiatives, which include nursing and ancillary support, partnership agreements, VA/DOD sharing agreements and other programs. Additional staffing was added in fiscal year 1989 with the $87.5 million provided by Congress. These initiatives are expected to produce sufficent savings to provide a "Balanced Budget" including the required support for our new physicians.

FISCAL YEAR 1989 MEDICAL ENHANCEMENTS

Question. In fiscal year 1989, Congress provided an additional $87.5 million for the Navy's medical program to increase the level of service at its facilities.

Please provide us with examples of what items or services on which this additional funding was used.

Answer. We are spending the $87.5 million provided by Congress in a variety of ways, all of which have been determined to provide a good rate of return on our investment. Management assist teams have been funded to provide assistance directly to Commanding Officers at their request. Additional non-medical personnel have been hired, including clerical personnel. Some of the funds were used to enhance the development of our decision support system. Hospital Corpsmen "[illegible]" school seats were funded as well as a graduate medical education support program. NAVACARE clinics and shipboard medical equipment are two other examples of how the $87.5 million is being spent.

Question. Why does the current budget show that even though you are increasing the 1989 funding level above the original plan, all your workload indicators are less than originally planned?

Answer. The increased funding (FY 1989 Current Estimate over FY 1989 Submit) is the result of a Congressional add in fiscal year 1989 of $87.5 million. This increase is being used to correct demonstrated deficiencies in fixed naval medical treatment facilities—not for the express use of generating increased workload—rather to forestall further decline in workload.

Current Estimate fiscal year workload is less than the original submission fiscal year 1989 workload for two reasons. First, there is a slight decline in Dispositions (less than 1%) due to more accurate modeling (5 months of FY-89 have elapsed versus 0 months). Second, a decrease in average length of stay (from 5.1 to 4.9 days) substantially lowers Occupied Bed Days by approximately 40,000 (0.2 less days per patient × 195,764 patients). A summary of our workload follows:

Workload measure	Fiscal year—				
	1988 actual	1989 plan	1989 5 mos.	1989 tot. est.	1989 change
Dispositions Occupied	194,099	197,396	80,767	195,764	−1,632
Bed Days	989,469	1,005,974	395,214	958,242	−47,732
Ambulatory Visits	9,620,709	9,697,789	4,204,729	10,150,650	+452,861
ALOS	5.1	5.1	4.9	4.9	−0.2

The current estimate of fiscal year 1989 workload still represents a modest increase over our fiscal year 1988 actual workoad. Finally, the Current Estimate of fiscal year 1989 Ambulatory Visits is increased over the fiscal year 1989 plan by almost 5 percent.

Question. For the record please provide a breakout of the $87.5 million and a brief description of the items or services purchased with this additional money.

Answer.

[In thousands of dollars]

Item	*Funding*
Management Assist Teams	500
Measures of Effectiveness	150
Rapid Implementation Team	200
Decision Support System	910
Additional Clerks	2,950
Non-Medical Manpower	11,800
Strenthen GME	10,800
Commission Physician Assistants	300
FOCUS Center	350
Independent HM Continuing Education	250
Increase "C" School Seats	1,700
Family Practice Hospital	580
Joint Military Medical Command	150
DRG Implementation	612
Increase Equipment Replacement	24,400
Increase Maintenance and Repair	11,060
Increase Medical Consumables	8,487
Increase Leased Medical Equipment	3,700
Increase HM "A" School to 14 Weeks	320
Increase C4 Course enrollment	200
NAVCARE Clinics	5,733
Shipboard Medical Equipment	2,348
Total	87,500

NAVY CONTRACTING INITIATIVES

Question. Admiral Zimble, you have a contract with the Bayley Seton Hospital, a Uniformed Services Treatment Facility (USTF) in Staten Island, New York, to provide care for active duty personnel and dependents for a fee ($1,200 per year for active duty; $700 per year for dependents).

Since dependents are already allowed to use the USTFs for care, what does this contract provide that is different from what is available from any other USTF?

Answer. The participation agreement with Bayley Seton is an agreement which OASD(HA) is attempting to incorporate at other USTFs. The agreement provides inpatient and outpatient care for active duty members. Only outpatient care is available for non-active duty beneficiaries, which explains the difference in cost. Non-active duty beneficiaries must use CHAMPUS for inpatient care. As a result, the Services will see a corresponding increase in their CHAMPUS costs as the USTF contracts are revised.

Question. Does this arrangement replace the Bayley Seton USTF contract?

Answer. This agreement replaces the agreement previously in force for this USTF.

Question. Do you have similar contracts with any other USTF?

Answer. Similar contracts are in effect at the USTFs located in Nassau Bay, Texas; Seattle, Washington; and Baltimore, Maryland.

Question. For the record, please provide the total cost of this program for fiscal year 1989 and budgeted for fiscal year 1990. Also provide the number of inpatient visits and the number of outpatient visits provided in fiscal year 1989 and budgeted for fiscal year 1990.

Answer. The rates are determined by geographic healthcare market rates using actuarial rates from the federal employees health benefit program. Total cost for DoD in fiscal year 1988 was

$120 million dollars. The amount budgeted by DoD for fiscal year 1989 is $142 million dollars. Navy O&M budget reflects that the fiscal year 1989 share is $39.7 million; Navy O&M fiscal year 1990 share is budgeted at $43.7 million.

Workload is based on unduplicated users—not outpatient visits or admissions. The Office of the Assistant Secretary of Defense (Health Affairs) is converting the data base so that we can obtain actual workload. The unduplicated user report is incomplete for 1988 and 1989 data is not available. However, 1987 estimates indicate that 105,000 patients used the services available at USTFs.

STATUS OF ALTERNATIVE USE PROJECTS

Question. In FY 1989, in response to requests from the Services to use CHAMPUS funds for other than CHAMPUS claims to pay for "alternative use" use projects, the Committee agreed to allow each Service to use up to $50 million for approved projects.

The Services claimed that the use of these funds for other uses would, in turn, reduce CHAMPUS costs. Additionally, the Services informed the Committee that they had a number of projects that could be quickly implemented, if only given the go-ahead.

We are now half-way through the fiscal year, how many of these projects have been approved by your office?

Answer. We will implement our first alternative use project, the FOCUS mental health project, on 1 April 1989. Due to our aggressive contracting efforts this is the only project thus far approved.

Question. How many of these projects have been implemented?

Answer. None have been implemented yet. Our first project is scheduled to begin on 1 April 1989. This project, named FOCUS, will provide a wide range of outpatient mental health services, including family counseling, at Camp Lejeune, North Carolina.

Question. What is the estimated CHAMPUS savings for FY 1989 and FY 1990 from these projects and have these savings been included in the budget?

Answer. FY 1989 savings are estimated to be $97,000. In FY 1990 we expect savings in the range of $230,000. Estimated CHAMPUS requirements were offset by these projected savings.

FUNDING OF FAMILY PROGRAMS OVERSEAS

Question. Admiral Zimble, it is our understanding that in overseas locations the Army's medical budget fully supports certain family programs, such as the exceptional family member program, even though not all aspects of this program are medically related services.

Is this also true of your overseas medical budget?

Answer. Navy's program is similar to Army's in that there is a single budget for exceptional family member (EFM) screening and evaluation, and for medically related services for handicapped children enrolled in Department of Defense Dependent Schools (DODDS). Within the continental United States, medically related services are provided for our beneficiaries in Bermuda and the Caribbean by staff assigned to Naval Hospital Portsmouth. Naval Hospital San Diego provides services for exceptional family members and also provides medically related services to DODDS. The overseas program primarily consists of medically related services for handicapped children enrolled in DODDS, with only a small portion dedicated to exceptional family members.

Question. If so, do you believe the medical budget should be funding the total program, or just the medically related portion?

Answer. These programs, the exceptional family member and medically related services for children enrolled in DODDS, should be treated as a unit. However, only the medical portion should be funded through the medical budget, not the total program.

Question. What is the current funding level of these programs overseas and how does this compare with funding levels of 1987?

Answer. Operations and maintenance funding for the overseas program in fiscal year 1987 was $283,000; in fiscal year 1988 it was $290,000; and in fiscal year 1989 it is $1,476,000. Within CONUS, the fiscal year 1989 budget level is $323,000.

Question. If you were funding only the medically related portion of these family programs, what would be your fiscal year 1990 funding requirements, by program? Please compare these figures with your current funding plan for fiscal year 1990.

Answer. The medical portions of these programs are funded for the Medical Department. Only the medical portion should be funded through the medical budget, not the total program. Projections for the fiscal year 1990 funding requirement are $1,827,000.

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

Question. The military tests all those entering the force and all active duty personnel on a scheduled basis, for the presence of AIDS.

What is the current positive rate among recruits and how does it compare with the civilian sector?

What is your current positive rate among active duty and how does it compare with the civilian sector?

Answer. Presently, the Navy is testing all basic trainees whose Military Entrance Processing Station HIV test is more than twelve months old or those who were never tested. The current positive rate is 0.4/1000 for Navy, 0.1/1000 for the Marine Corps, and average 0.3/1000 for Department of the Navy. For active duty personnel Navy rates are 0.7/1000; Marine Corps rates are 0.4/1000; and average 0.7/1000 for Department of the Navy. No comparable tests are performed on private citizens, so no comparable results are available.

Question. A new strain of HTLV (AIDS) virus has recently been discovered and is called the HTLV-IV virus.

Are you testing for this new strain of AIDS virus?

Is the test for this new strain in addition to the tests currently performed or will it replace the current testing mode?

Is the test for this new strain more or less expensive than the former test? What is the average cost per test?

Answer. Navy is not testing for this new virus.

There is currently no known medical significance of this virus or definitive indication that it causes any medical problems. In fact, there is some doubt that HTLV IV is truly a distinct viral entity. It may be a cross reactant of another virus.

Question. A current method of treating various symptoms of AIDS, is the use of the drug AZT.

Are the Services prescribing AZT?

Are the military pharmacies carrying AZT?

What is the cost of AZT and what is its effect on the medical (esp. pharmacy) budget?

Answer. Yes, the Navy is using AZT in the treatment of AIDS symptoms. AZT is carried in every pharmacy supervised by a pharmacist. The cost of the AZT from March, 1988 to January, 1989 was $200,116.80. The effect of AZT on the budget is to prevent the purchase of other drugs.

Question. What is the current and the fiscal year 1990 level of funding for AIDS testing, treatment, and research?

Answer. Army has the lead for all AIDS research in the Department of Defense. Current Navy funding levels for testing and treatment are:

[In millions of dollars]

	Fiscal year—	
	1989	1990
Testing	8.2	9.1
Treatment	4.4	4.8

[CLERK'S NOTE.—End of questions submitted for the record. The following statement and questions were submitted for the record by Lt. General Monte B. Miller, Surgeon General, United States Air Force:]

LT. GENERAL MONTE B. MILLER
SURGEON GENERAL OF THE UNITED STATES AIR FORCE

Mr. Chairman and members of the committee, It is my pleasure to be here today to discuss Air Force health care services. I am privileged to lead an organization of more than 55,000 top-notch professionals who operate a comprehensive community health care system providing services to over three million people throughout the world.

I'm often asked, "How do you balance peacetime and wartime requirements?" My response is that we have an integrated mission. Our work is as crucial today as it would be in wartime. We practice our wartime skills every day by providing care to patients. However, if we should be deployed, everyone in the Air Force Medical Service would have a job to do.

Today I want to discuss our progress in medical readiness and in improving accessibility to health care services, my retention concerns, our construction program, the excellent quality of Air Force health care, the financial outlook, and health promotion.

Medical Readiness

Medical readiness continues to be my first priority. Our Medical Service remains committed to the deterrence of war through operational support of our fighting forces. Optimum combat medical support depends on peacetime readiness for wartime effectiveness. To prepare for the treatment of the sick and injured during wartime, we operate a comprehensive health care system in peacetime to ensure that our medical response for wartime is ready and rapid.

Prepositioning war reserve materiel (WRM) assets overseas is a major component of our readiness program. By prepositioning contingency hospitals and other collateral assets, we will have medical facilities available to treat and evacuate casualties. Additionally, we will conserve critical airlift resources for the movement of other items required to support combat operations.

We now have an initial operating capability at Kimhae Air Base, Republic of Korea, with a pre-engineered metal building configured to store and operate a 500-bed contingency hospital, a 250-bed aeromedical staging facility, and a blood transshipment center. This hospital will be the major U.S. Air Force contingency facility available to care for casualties on the Korean peninsula.

Throughout the continent and the United Kingdom, we now have fourteen 500 bed contingency hospitals, 6 blood transshipment centers, 13 aeromedical staging facilities ranging from 50 to 250 beds and 37 second echelon facilities in place.

Aeromedical evacuation operations will improve during wartime with a segment of the Civil Reserve Air Fleet (CRAF) dedicated to medical operations. This will provide a much needed increase in strategic aeromedical evacuation capability. In addition, we have developed a new system, CRAF Aeromedical Evacuation Shipsets, that reconfigures civilian aircraft without modification within 12 hours.

This summer we begin training our medical readiness units to use the SCPS-M -- Survivable Collective Protective System-Medical -- a blast hardened, chemically-protected medical treatment facility that will be buried underground at overseas air bases to provide second-echelon care to combat casualties.

We are about to embark on the most ambitious field medical readiness training program in Air Force history. Phase III of our Medical Red Flag Program will begin operation next fiscal year and will train personnel assigned to deployable medical units in our new prepositioned medical assets and our SCPS-M shelter. We hope to cycle every active duty medic who is on mobility through this training every three years.

As a complement to Medical Red Flag, the Medical Readiness Training Site at Phelps-Collins ANG Base, Michigan, will conduct all second-echelon training for deployable Air National Guard (ANG) and Air Force Reserve (AFRES) medical units.

The Reserve and the Guard together comprise the Air Reserve Components. They make a significant contribution in both peacetime and wartime. Currently, these elements of the Total Force are tasked to provide 35 percent of the wartime medical manpower requirement. Together the Reserve Forces comprise 70 percent of our second echelon tasking, 75 percent of our CONUS augmentation tasking, and 97 percent of our aeromedical evacuation wartime capability.

Our capabilities to do our job in wartime are greatly improved. However, we must continue to increase and modernize our medical capabilities through research and development programs. Things to look for in the future include an Improved chemical/biological protective garment, a Multi-Chambered Auto Injector for nerve agent pretreatment and antidote, a nerve agent anti-convulsant auto injector, Transportable Blood Transshipment Centers, a Resuscitative Fluids Device, a Digital Imagery System, and many more.

Our graduate medical education programs will continue to produce the maximum number of specialists with critically-needed skills. Incentive programs including loan repayment and education and training stipends have been implemented for the Air Reserve Components, and our recruiting energies are targeted to accessing people who have these critically-needed skills.

I believe it was the intent of Congress to help our medical readiness program by requiring the targeting of 2500 Health Professions Scholarships to students in the final two years of medical school who accept residency training in a critically- needed wartime specialty. Unfortunately, there are significant difficulties with this. First, students entering their third year of medical school are usually unsure of their residency preferences, and these may change often before the medical student becomes a trained specialist. Second, the competition for residency positions is so fierce that it is impossible to guarantee entry into the desired residency. Third, even if the student does manage eventually to gain acceptance in a residency in a critically-needed specialty, he or she may not ultimately complete the training for a variety of reasons.

As an alternative, DOD is considering a legislative initiative to better achieve Congressional intent. The proposal would establish a Graduate Student Program targeted toward physicians in their last two years of residency in critically-needed specialties. Sponsored residents would have both an active duty and a reserve duty obligation. This concept could achieve the desired results of reducing both active and reserve component specialty shortfalls much earlier and with a far greater degree of assurance.

Improving Accessibility

The greatest challenge facing Air Force health care right now is making quality care more accessible to our patients. We have introduced a number of improvements including sharing agreements with the VA, partnership programs with civilian providers, and the opening of the first Air Force PRIMUS clinics. Our greatest hope for improving accessibility is through locally managed health care.

We are striving toward fully managed health care. That means providing or arranging for the appropriate level of care in a timely, cost effective manner that meets our standard of quality. We think catchment area management is the answer. Since health care has always been a local issue, we feel it is best managed locally where the experience and local contacts are established. We have two demonstration projects starting this fiscal year - Bergstrom AFB, in Austin, Texas, and Luke and Williams Air Force Bases in the Phoenix, Arizona, area. The demonstrations will run for a minimum of three years.

We are currently phasing in the management and baseline activities. This project will place the responsibility of health care provision upon the local Air Force medical facility executive management team who will have control of capitation funding, including CHAMPUS dollars. The Air Force catchment area management system will incorporate an enrollment process, a health care finder function, a utilization management program, a claims processing system, and an automated data system to provide integrated support for all functions. Our long range plan is to transition to catchment area management at all Air Force medical treatment facilities as the logical progression of our current Health Care Finder program.

While catchment area management is not yet underway, we have some excellent programs in full swing that support catchment area management. Our Health Care Finder program has been very successful. It's improving access to health care and reducing patient and government costs while maintaining our stringent quality. We now have approximately 17,000 civilian providers involved in this program Air Force-wide.

The Partnership Program is another resource for improving patient access to needed health care services. We have 300 Partnership agreements Air Force-wide, including psychiatry, obstetrics, and cardiology. With some ingenuity, Partnership Programs can offer a realm of possibilities at the local level. VA sharing agreements offer another. More than 50 percent of Air Force medical treatment facilities located within a 50-mile radius of a VA medical facility have sharing agreements with the VA. There are currently 53 Air Force hospitals with a total of more than 200 active agreements. They include sharing a wide variety of resources ranging from facilities to individual clinical and ancillary support services. We have a joint facility established at Kirtland AFB, New Mexico, and are planning other sites at Nellis AFB, Nevada; Elmendorf AFB, Alaska; and Patrick AFB, Florida. This program works well, providing a wider range of services for both Air Force and VA patients than would otherwise be the case, in addition to saving money. I would like to see this program expand to include CHAMPUS-eligible patients which would offer them better access to health care at a lower cost than under the CHAMPUS program.

We just opened our first three PRIMUS clinics. The locations are Omaha, Nebraska, to support Offutt AFB; Tucson, Arizona, to support Davis-Monthan AFB; and Riverside, California, to support March AFB. Two more are scheduled to open this fiscal year at Mather AFB in California and at MacDill AFB in Florida. These clinics will improve patient access to primary medical services at selected locations where demand far exceeds current capability. These clinics, while helpful in the near term, are not the ultimate solution to our access problems. We would prefer to provide care to all our patients via the direct care system.

Our patient population is estimated at 3.4 million and is continuing to grow. In FY 88, our facilities treated more than 18 million outpatients, and nearly 270,000 patients were admitted. Nearly 35,000 babies were born, and more than 33 million prescriptions were filled in our facilities. There were no discernable shifts in the distribution of health care for our eligible beneficiaries from FY 85 to FY 88. However, we have noticed a steady reduction in the number of admissions to Air Force hospitals from 275,100 in FY 86 to 269,800 in FY 88. This reduction is consistent with civilian hospital trends over the past decade and is largely the result of rapidly emerging technology permitting more treatment to be performed on ambulatory basis. This has not diminished the demand for health care butrather has shifted it from the inpatient to the outpatient setting. It underscores our urgent need to find new ways of increasing patient accessibility.

This shift has presented some problems since our older medical treatment facilities were not designed to meet today's growing demand for care. We are now reshaping our hospitals from a predominantly inpatient to an ambulatory care orientation. Our goal is to meet existing patient demands for care and to recapture the outpatient workload now provided under CHAMPUS. The first step, taken in September 1988, to achieve this was the trial establishment of a single ambulatory services manager for our hospitals. We are also evaluating support staff and examination room-to-practitioner ratios based upon civilian norms and Air Force wartime requirements. The goal is to establish the proper mix of exam rooms, support staff, and practitioners to achieve peak efficiency in ambulatory services. To reach this goal will require nearly 260 new authorizations for the Medical Corps, 290 more for the Nurse Corps, and 760 additional enlisted spaces.

The Exceptional Family Member Program provides medical care and medically related services for eligible DOD families with exceptional medical or educational needs. The Air Force has responsibility for all medically related services in the Philippines, the United Kingdom, the North Atlantic region, the entire Mediterranean, and the Wiesbaden area of West Germany. We are providing as much service for these family members as our current resources will permit.

Retention Concerns

Retention of critically-needed specialists is a special concern. While overall retention was stable in FY 88, we continue to experience problems in certain specialties. Although the Medical Officer Retention Bonus (MORB) is supposed to be a temporary measure until a permanent revision to the special pay law is enacted, approximately 50% of eligible Air Force specialists are not included in the implementation of this bonus. Their perception is that they are less valued and less vital to our mission. Nothing could be further from the truth. Primary care specialties are the foundation of the referral structure of our medical care system. They are key to the success of our graduate medical education programs, to the reduction of CHAMPUS expenditures, and to the improvement of patient satisfaction. Their exclusion from the MORB may demoralize them and force them out of military service -- a result exactly opposite from the MORB's purpose. In addition, the degree of stratification of pay of the MORB is in contrast to the Resource-Based Relative Value Scale. This Congressionally commissioned study is likely to become the basis of physician compensation in other federally funded medical services such as Medicare.

Most of our physicians recognize that a revised pay system such as that proposed in DOD's December 1, 1988, report to Congress must have a component of pay which varies by specialty.

We feel strongly that officers with training obligations not be paid less than their colleagues with equal training or experience. This was true in the 1970's and was a tremendous problem. Congress recognized this and eliminated this inequity in the current physician pay system. Another point of concern is how the MORB obligation will be treated in the new pay structure. We support the DOD position that MORB obligations be cancelled in favor of the proposed specialty-based pay system as long as the recipients obligate themselves for at least the same period under the new pay plan. This formula will be widely accepted by our physicians, especially those who are still debating whether or not to accept the MORB.

Non-compensation factors are also vital to an effective retention system. Initiatives to improve clinical and administrative support will be extremely effective in increasing productivity and reducing CHAMPUS expenditures. However, I cannot emphasize strongly enough that such initiatives will be ineffective unless they are used to supplement a satisfactory compensation system.

I am also concerned about nurse recruiting and retention. The Air Force is a long way from reaching its FY 89 recruiting goal of 613 nurses. We need to recruit 15 nurse anesthetists this year; so far, none have been commissioned. I anticipate a shortage of 31 nurse anesthetists through FY 90. We must also attract 14 nurse midwives. Right now, only one has consented to join.

Nurse retention is influenced by several factors including promotion potential and incentive pay.

We are facing more and more competition from civilian agencies. Some civilian institutions are contracting nurses in their last year of training and paying education costs. We need similar programs to maintain the attractiveness of military nursing in the marketplace.

Several years ago, the Air Force was directed to convert 98 military dental officer authorizations to civilian contract dentists during Fiscal Years 1987-89. The military positions were then converted to Nurse Corps authorizations to help meet the wartime shortage of nurses. At the time, there was no validation of the number of military dentists needed in wartime. We are now close to being able to validate wartime dental requirements. As suspected there is a shortfall when compared to our current force including the Air Reserve component.

Contracting difficulties have precluded us from filling all 98 positions with contract dentists. We estimate that, just since the beginning of this fiscal year, approximately 26,000 patient appointments have been lost because of our existing shortage of dentists. Contracting for these positions isn't working well in peacetime and does not serve us well in wartime. I believe these contract positions should be converted back to military authorizations.

We plan to resume training physician assistants in FY 90. While the force had been fairly stable for several years, the retirement of senior PAs is leaving a significant void which the recruiting system has not been able to fill. We will select experienced enlisted medical technicians for our training program and will train twenty-four students in each of three classes per year. The first graduates will join the workforce as commissioned officers in FY 92.

The University of Texas Health Science Center in San Antonio will begin a program to award a Master of Science in Nursing degree in Nurse Anesthesia. Twenty Air Force nurses will enter the first class in September 1989. The two-year program will include on-campus academic training as well as clinical practice at selected Air Force medical facilities. Already established is a master's degree program in Nurse Midwifery at Georgetown University . Under the auspices of the Nurse Midwifery Program at Malcolm Grow USAF Medical Center, Andrews AFB, Maryland, this affiliation with Georgetown offers selected midwives a unique, top-quality training experience.

Medical Construction

In January 1986, the Secretary of Defense established the Defense Medical Facilities Office (DMFO) under the Assistant Secretary of Defense (Health Affairs) with the responsibility for planning, programming, and allocating funds appropriated for all DOD medical readiness construction projects.

The DMFO's FY 89 Medical Military Construction Program (MCP) included 14 projects for Air Force medical facilities. Four of these projects were specifically in support of medical war readiness materiel (WRM) storage and prepositioning. All four of these projects were supported by the Congress and have a total value of $15.3 million. One of the projects will provide a turn-key, 500-bed, third echelon medical contingency complex at a classified location. Two of the projects will provide warehouse facilities for prepositioning second echelon medical equipment and supplies in Europe. The fourth project will provide a medical WRM warehouse at Tyndall AFB, Florida.

The DMFO's FY 90 Medical Military Construction Program includes eight projects for the Air Force Medical Service with a combined value of $100.8 million. Within the CONUS there is one project dedicated toward meeting compliance requirements. This is the life safety upgrade project programmed for the hospital at Maxwell AFB, Alabama. Additional proposed peacetime construction in the FY 90 program includes: the Air Force/Veterans Administration joint venture hospital at Nellis AFB, Nevada; two clinic addition/alteration projects at Andrews AFB, Maryland, and Lackland AFB, Texas; a clinic/dental clinic replacement at Hurlburt Field, Florida; and a dental clinic replacement at Patrick AFB, Florida.

The FY 90 program also contains readiness and overseas requirements directly contributing to the combat effectiveness of deployed forces. Two projects worth $19.6 million support WRM requirements. A turn-key, 1000-bed, third echelon medical contingency complex at Echternach, Luxembourg, will enhance our ability to provide life-saving, surgically-intensive medical care to Air Force casualties which are expected to peak during the first days of a European conflict. This project was deferred by the Congress from the FY 88 construction program based on the belief that such a project should be financed through the commonly-funded NATO infrastructure program. Although this contingency facility may treat Allied casualties, it will primarily serve U.S. Forces. The other project will provide for the prepositioning of second echelon medical equipment and supplies in the European theater.

Continued funding for facility construction and renovation programs is essential in our efforts to improve patient access to care and reduce growing CHAMPUS expenditures. We remain committed to a strong construction program and are working with the DMFO to correct longstanding construction deficiencies.

Quality Assurance

Another focal area is the quality of Air Force medicine. Our goal is to maintain and enhance the quality of Air Force health care through our aggressive Quality Assurance programs and by recruiting and retaining top-notch health care professionals. For instance, the DOD Civilian Peer Review program, which has no comparable civilian counterpart, has found unresolved differences in a remarkably low number of cases. As a further example, Obstetrics is the nation's highest malpractice risk, high volume medical specialty; yet a two-year study found that Air Force obstetrical services met or exceeded U.S. civilian sector norms in all 17 categories measured. In addition, all Air Force hospitals seeking accreditation from the Joint Commission of Accreditation of Healthcare Organizations have been accredited. In comparison, two percent of civilian hospitals fail to achieve accreditation.

Quality care is dependent on quality people with quality training. We have been able to recruit most of our physicians from the top 25 percent of their medical school classes. Seventy-five percent of Air Force physicians are board certified versus 55 percent in the civilian sector. Air Force-trained physician specialists taking national board examinations placed well above the national average, and several of our training programs are nationally ranked.

We are in the process of expanding the focus of our QA program to include not only physicians but also the many other factors, both clinical and administrative, that affect the quality of care. A review of FY 88 data shows a downward trend in Air Force malpractice claims -- 9.5 claims per 100 physicians -- that is well below the national average. In 1988, incidents resulting in malpractice claims have been reduced 17 percent from the peak in 1985.

We continue to plan the future of our Quality Assurance program. We are working hard to improve the substance, yet reduce the volume, of paperwork required for Quality Assurance administration. There is a clear and continuing need for documentation to ensure the validity and credibility of the quality of care. Yet we need to balance our administrative requirements with the primary duty of doctors and nurses to care for patients. We need the expertise of these providers in designing, monitoring, and evaluating indicators and in making peer review decisions. Additional administrative support - trained personnel and equipment - would allow us to make more efficient use of our providers' time, while enhancing the effectiveness of our Quality Assurance program.

We can measure the quality of care we provide, but we are also interested in how our patients gauge that care. This past year, of approximately 23,000 survey respondents, 85 percent were satisfied with the care they received in our medical treatment facilities. Patients identified "patient concern" as their most important consideration and the factor they found most satisfying.

Financial Outlook

FY 88 was a very lean year for us. While FY 89 has thus far been an improvement, we still face a $100 million shortfall in the CHAMPUS program. Reducing CHAMPUS costs is a special challenge, but the recently approved CHAMPUS Alternate Use program will help expand services at selected bases. With an initial investment in FY 89 of approximately $7-10 million, growing to $39 million in FY 90, we expect to realize health care savings of more than $61 million by FY 91.

The initial group of candidate projects, some already approved for implementation, show a rate of return of approximately 1.7 to 1 (or $1.70 for each $1 invested) for the fully matured project by FY 91. Over the long term however, a more realistic expectation would be a rate of return of 1.5 to 1 as a full range of possible projects are explored and developed.
This is another opportunity to prove that the local executive management team can manage the system better if given the resources.

Health Promotion

Through our Health Promotion Program, we continue to emphasize preventive medicine to promote healthier lifestyles, improve overall health, and enhance combat readiness. This past year, a health promotion prototype clinic opened at Carswell AFB, Texas, and promises to provide valuable insight for establishing wellness clinics throughout the Air Force. Over 900 individuals have been screened and half of this group is receiving intervention to assist with modifying unhealthy lifestyle behavior. The test is anticipated to be completed in late 1989.

The Air Force Anti-Smoking Initiative continues to decrease the number of active duty smokers. The latest Air Force smoking survey finds a 10.5 percent decrease in the number of smokers over the past year. The net result of our two-year anti-smoking campaign means 67,500 fewer smokers in the Air Force. Many medical treatment facilities have also adopted a smoke-free policy for staff and patients.

Another health promotion effort is our Coronary Artery Risk Evaluation (CARE) program, which was recently expanded to include a pediatric screening program known as CARE II. This program uses blood studies, blood pressure, weight, and family history to identify children who are at increased risk for developing coronary artery disease. The children then enter intervention programs and are tracked accordingly. We also counsel parents on the impact of factors such as nutrition, exercise, drugs, smoking, and alcohol.

The CARE Programs will soon be enhanced by automation. A base-level system that will automatically compute patients' coronary artery risk indices and provide tailored risk reduction actions is currently in software development. The base-level information will then be fed into a centralized computer for use as a research and trend analysis data base.

Contracting

We have established a Specialized Medical Contracting Activity within the Medical Logistics Division at Brooks AFB, Texas, to provide responsive support and advice on all matters related to contracting. This activity is directly responsible for developing, soliciting, and awarding services contracts that are required by multiple locations with similar needs or that lend themselves to central procurement.

This Activity has been successful in handling a number of contracts including those involving PRIMUS clinics and the Hospital Aseptic Management System. It is currently working on a requirements contract for radiologists as well as a centralized procurement for obstetrics and gynecology services. All contracting endeavors will have the patient's best interest in mind.

Personal services contracts for certain specialties are very difficult to execute. The compensation limitation for direct health care provider personal services contracts is non-competitive in those specialties where industry standards dictate higher compensation. We need legislative relief to eliminate this compensation limitation. Contract costs will still be controlled through the competitive process established by the Competition in Contracting Act.

Conclusion

This year the Air Force Medical Service celebrates its 40th anniversary. We have grown and prospered because of the talent, persistence, and commitment to the pursuit of excellence by our people. Today, military medicine faces many challenges, but our dedication to the health care needs of the military family has not changed. We will continue to improve our readiness posture and to work hard to provide the best in health care services. Yet our continued success depends on adequate resources - money, materiel, and manpower. With your support and understanding we will meet our objectives. I will be happy to answer any questions you may have.

[CLERK'S NOTE.—Questions submitted for the record and the answers thereto follow:]

BASE CLOSURE AND REALIGNMENT

Question. General Miller, the Report of the Secretary's Commission on Base Closure and Realignment recommended for closure or realignment, five Air Force Bases (Chanute AFB, Illinois; George AFB, California; Mather AFB, California; Norton AFB, California; Pease AFB, New Hampshire). While no hospitals were mentioned directly, there are medical and dental facilities at these locations which will be affected.

Based on the commission's report, do you believe that the medical facilities at these locations will be eliminated? Are there other facilities which you believe will be affected?

Answer. Yes, the five medical facilities at closure bases will be eliminated.

Definitely, our medical facilities at the realignment bases will be impacted as the population served increases. Also, several of our facilities, that are nearby other DOD facilities which are closing, will assume additional workload, for example, McGuire and McClellan Air Force bases.

Question. Are you reviewing the situation to determine the best way to provide alternative care for retirees in these areas?

Answer. Yes, we have analyzed and assessed the impact of the Base Realignment and Closure Report on providing medical care to all our beneficiaries and are evaluating the alternatives. However, at the closure sites, where no other DOD facilities are available, CHAMPUS, CRI, and MEDICARE will be the alternatives. The cost of this medical care to the government will be significantly greater.

Question. Do you plan to redistribute the medical equipment and staffing to your other facilities to increase their workload?

Answer. Most equipment will be redistributed, if cost effective. Staffing will be redistributed to the degree we can. My objectives are to minimize the impact on the Medical Readiness Force Structure, contain Air Force CHAMPUS costs, and maintain existing levels of medical services to beneficiaries presently located at realignment bases and for those realigning to those bases.

VA/DOD RESOURCE SHARING AGREEMENTS

Question. General Miller, the Department has approximately 140 agreements with the Veterans Administration, DoD pays VA for supplying over 1,500 services, from surgical care to pediatrics.

These agreements are developed at the local level and allow the hospital commander to contract with a local VA hospital to provide care that cannot be provided in the military facility.

In fiscal year 1989, the House Armed Services Committee directed DoD to start using CHAMPUS funds to increase the number of sharing agreements, anticipating that this action would reduce CHAMPUS costs. The Senate Armed Services Committee and this Committee did not agree to that approach due to the inability to audit these agreements and the uncertainty of the impact on a military hospital's efficiency.

We have the Administration's position based on an OMB response to GAO, but we would like your personal opinion on these sharing agreements. Please share your opinion with us.

Answer. The Air Force is proud of its record of sharing with the Veterans Administration. I think I can say that without prejudice, we are the DOD leaders in this area. However, we do not believe we should share for just the sake of sharing; it must be mutually beneficial. We have an obligation to provide our patients with accessible, quality, and affordable health care. We will provide or arrange this care in the most cost effective system.

The key to our success, as well as the entire program, is that it is locally generated and managed. Not centrally directed, but centrally supported.

Question. What do you believe will be the long-term impact of these agreements? Is it possible that the two systems would be merged or that DOD funding would be used to subsidize the VA?

Answer. The long-term impact of this program should improve efficiencies, accessibility, and hopefully reduce government expenditures.

The two systems should definitely not be merged. They are two very different systems, with two distinct missions. If we follow the guidelines we have established and do not enter into agreements unless they are mutually beneficial to both agencies, DOD funds will not be used to subsidize the VA.

Question. How many agreements does the Air Force have with the VA in which the VA is providing care to DOD beneficiaries? What is the total cost of these agreements and what cost savings have been verified?

Answer. The Air Force has over 200 sharing agreements. I cannot specifically provide the total cost or savings data for the Air Force since our systems have not been designed to account for this type of information. As you know the original scope of the program was based on keeping it simple and locally managed. We have provided guidance to the field that directs our people to track that information, but we have not required formal reporting. Many of our facilities are using high tech diagnostic laboratory and radiology services at VA medical centers with substantial savings. For example, Ehrling Bergquist Strategic Hospital, Offutt Air Force Base, Nebraska has a sharing agreement with the Omaha Veterans Administration Medical Center to refer patients for bone scans, thyroid scans, and inpatient psychiatric care. The cost of a bone scan in the civilian community is $407, the VA is $76; a civilian thyroid scan costs $337, the VA is $33; civilian inpatient psychiatric cost per day is $394, the VA is $236. If you require more details, I'll be happy to provide it later for the record.

I believe we need to establish the guidelines without paralyzing the program with external reporting that will ultimately stymie creativity. Please keep in mind that costs aren't the only criteria for sharing. Convenience, quality, and accessibility also are important considerations.

PHYSICIAN PAY PLAN

Question. The Department recently submitted the Health Professionals Special Pays Study and Plan for the Implementation of the 1989 Medical Officer Retention Bonus. This study indicates that military physician pay has not kept pace with physicians in the civilian sector.

General Miller, we have heard a number of complaints from physicians who are upset because they feel your study does not adequately compensate all categories of physicians. Would you care to comment on the physician pay study?

Answer. The Medical Officer Retention Bonus (MORB) was authorized by the Congress as an interim measure to stop the outflow of experienced specialists until a permanent pay revision could be enacted. Other than requiring more than eight years creditable service and no training obligation beyond Oct. 1, 1991, the Congress left details of the MORB implementation to the Department of Defense. DoD's Health Professionals Special Pay Study Group developed the present structure of the MORB as a transition to its concept for the permanent pay restructure, which is needed in fiscal year 1990. As you probably know, much discussion and many different opinions were heard during development of the MORB and permanent programs.

Our physicians are rightfully upset that both the MORB and the permanent restructure eliminate many medical specialties, comprising 45% of our physician specialists, from eligibility for specialty based pays, i.e. the MORB and Medical Special Pay proposed for fiscal year 1990. Our physicians realize that civilian incomes vary widely by specialty and would expect much smaller MORB amounts for specialties with smaller differential between military and civilian incomes. The exclusion of primary care specialists has created great dissatisfaction. Even among physicians who are eligible for the MORB, only 33% of them plan to accept the bonus, according to a survey we recently conducted, because of the relatively small payment amounts.

Our concerns are much stronger for the fiscal year 1990 proposed restructure. Not only are the same 45% of specialists excluded from the proposed Medical Special Pay but the pay is not recommended by DoD as an entitlement to the individual. Rather, DoD would control the eligible specialties and amounts, making long range personal financial planning uncertain. The fiscal year 1990 proposal for MSP reserves too much of the pay to physicians who sign 4 year contracts. We recognize the benefits of multi-year contract incentives; however, having the 4 year contract amount 3 times as large as the one year amount is an extreme disincentive to the individual who is not certain enough of a career to sign a 4 year contract and who would be very displeased by foregoing 67% of the MSP payment amount.

Finally, in the proposed MSP, officers with less than four years experience will receive only 40% of the MSP amount that specialists with more than 4 years experience will receive. This differential is too great, and deals unfairly with officers in obligated status who, by and large, will also have less than 4 years experience.

Question. The estimated cost of this physician pay plan for fiscal year 1989 is $29.5 million. What is Air Force portion of the $29.5 million?

Answer. Presently, the Air Force share is $8.3 million, which should be sufficient since so many physicians are planning not to accept the MORB. If however, all eligibles accept MORB contracts, at least $4 million more be necessary.

STAFF SHORTAGES

Question. Pay is not the only service dissatisfier for military physicians. We understand that there is a serious shortage of nurses and support staff, including administrative personnel. Due to these shortages, hospitals are not operating efficiently and physicians are frustrated in their desire to increase patient care.

In your opinion, what occupations are experiencing the most severe shortages?

Answer. In an environment that has more eligible patients than we are able to care for in our facilities, technical and clerical support become increasingly critical. Our challenge remains to structure our force to take care of as many patients as we possibly can, yet support our operational mission. We are evaluating this dissatisfier and will reassess support ratios necessary to fulfill our charter. Clearly, given authority for greater numbers of people we could improve the ratio.

Question. Do you plan to submit legislation to address these shortages?

Answer. The Health Professionals Special Pay Study report for nurses and providers (other than physicians) is being reviewed for submission to Congress. This has the potential to improve retention, ease the recruiting demands, and yield a wider range of experience in our workforce. At this time, we do not intend to submit legislation to address shortages in technical and clerical support.

Question. In the Committee's version of the fiscal year 1989 DOD Appropriations bill, we included a provision which would have given DOD the authority to pay prevailing wage rates for certain health care professionals. This provisions was subsequently depleted on the House floor. Do you think this is a valid way of addressing health care staff shortages?

Answer. Yes, this authority would allow us to set competitive wage rates for certain civilian health care professionals which we cannot now hire to keep because our salaries are not competitive with the civilian market. We end up having to contract for this work at a higher cost because we cannot hire the personnel. Some examples of staff shortages include cardiovascular perfusionists, cytotechnologists, and health physicists.

STATUS OF ALTERNATIVE USE PROJECT

Question. In fiscal year 1989, in response from the Services to use CHAMPUS funds for other than CHAMPUS claims to pay for "alternative use" projects, the Committee agreed to allow each Service to use up to $50 million for approved projects.

The Services claimed that the use of these funds for other uses would, in turn, reduce CHAMPUS costs. Additionally, the Services informed the Committee that they had a number of projects that could be quickly implemented, if only given the go-ahead.

We are halfway through the fiscal year, how many of these projects have been approved by your office?

Answer. As of this date, we have submitted to OASD(HA) 17 projects, eight (8) projects were submitted in the first phase of which five (5) were approved for implementation. (See chart for description of projects). The other three (3) projects were disapproved because they were sited in geographic locations where other CHAMPUS demonstration projects are planned. Nine (9) projects have been submitted in a second phase but have not yet been acted upon by OASD(HA).

Question. How many of these projects have been implemented?

Answer. To date, due to contracting leadtime delays only the approved OB/GYN contracting project at Hill AFB has been implemented (Oct. 1, 1988). Implementation of the other four (4) projects is now anticipated to start in the second half of fiscal year 1989.

GROUP B
ALTERNATE USE OF CHAMPUS FUNDS
SUMMARY OF PROJECT IMPLEMENTATION PLANS
($ in Thousands)

			FY89			FY90		
MTF	PROJECT	START DATE	PROG INVST	GROSS CHAMPUS SAVINGS	NET GOVT SAVINGS	PROG INVST	GROSS CHAMPUS SAVINGS	NET GOVT SAVINGS
Elmendorf	Expand OB/GYN Services	15 Jul 89	198	311	113	676	1,127	451
Tinker	Replace Partnership OB/GYN w/Contract	1 Apr 89	375	503	128	750	1,606	856
Hill	Replace Partnership OB/GYN w/Contract	1 Oct 88*	302	1,222	420	828	1,248	420
Plattsburgh	Hire General Surgeon	1 Jul 89	34	105	71	130	412	282
Offutt	Expand Inhouse Mental Health Services	1 May 89	532	828	296	703	1,889	1,186
		Total	1,941	3,169	1,028	3,087	6,282	3,195

* Includes 6 mth of Direct Care funds ($333K)

RAMSTEIN AIR DISASTER

Question. On August 28, 1988, three performing aircraft collided during the air show at Ramstein Air Base, West Germany, killing 3 pilots, 67 spectators, and injuring over 520 people. The Air Force response to this disaster was governed by a Ramstein Air Base Special event plan under the Air Force Peacetime Disaster Preparedness Plan.

It is our understanding that the Air Force responded in an examplary fashion, evacuating those in need of hospitalization within 96 minutes.

General Miller, we understand that while all did go well, there were a few lessons learned from this disaster.

What were the shortfalls, and how are you addressing these issues?

Answer. The Air Force did not experience any major shortfalls in the Ramstein disaster. The patients were moved within a reasonable amount of time with adequate manpower and transportation assistance from the military and civilian community. This major medical effort was reviewed by a team of burn and medical evacuation experts selected by the Office of the Assistant Secretary of Defense (Health Affairs) (OASD[HA]). The team concluded that effective care was provided in a timely fashion. Improvements could be made in crowd control, command and control, and standardization of communication equipment. Recommendations made by the same team in these areas should also be important for joint planning initiatives in the United States between the Department of Defense and the National Disaster Medical System. These initiatives are being worked at OASD(HA).

FISCAL YEAR 1989 MEDICAL ENHANCEMENTS

Question. In fiscal year 1989, Congress provided the Air Force with an additional $25 million to enhance medical care at its facilities. Of this $25 million, $2 million was set aside for the military family services demonstration project.

The current budget request indicates that this additional funding went to provide care in non-defense facilities. At the same time you are increasing the level of funding for care outside your facilities, your backlog of maintenance and repair grows by 44 percent and funding for your hospital operations actually decreases by $13.5 million.

Please explain how the additional $25 million in fiscal year 1989 increased the amount of care you provide to active duty, beneficiaries, and retirees?

Answer. $5 million will be used to initiate expanded MTF services ranging from increased operating room capability to contract specialty services. Due to the delay in resolving the appropriated not authorized issue and the inherent hurdles in the contracting process, we expect to achieve only about two months of operational projects this fiscal year. Another $2 million will be used for military family services contract study funds. The remaining balance ($18 million) of the funds is proposed to be used to offset a portion of the CHAMPUS shortfall, currently estimated at $99 million. Project investment will expand to $33 million in fiscal year 1990.

Examples of these services are: expanding Autologous Bone Marrow Transplants; expanding surgical services; establish on-base satellite clinics.

Question. Please provide a breakout of the $25 million and a brief description of the items or services purchased with this additional money.

Answer. Five million dollars will be used to initiate expanded MTF services ranging from increased operating room capability to contract specialty services. Another $2 million will be used for military family services contract fund studies. The remaining balance ($18 million) will be used to offset the CHAMPUS shortfall. The following is a list of projects that will begin late in fiscal year 1989 and will continue into fiscal year 1990.

MANAGEMENT EFFICIENCIES
GROUP A
($ in Thousands)

			FY 1990		
MAJCOM	UNIT	PROJECT	PROGRAM INVSMNT	GROSS CHAMPUS SAVINGS	NET GOVT SAVINGS
AFA	Academy Hosp	Birthing Rooms	175	350	175
ATC	Lowry Clinic	Expand Primary Care for Dependents	650	650	-
	WHMC	Add Rheumatologist	90	360	270
		Add Four OB/GYN Nurse Practitioners	384	455	71
		Autologous BMT	1,100	3,000	1,900
		Physiatry Initiative	500	1,000	500
AFSC	USAFSAM	Central Lab Upgrade	523	-	-523
MAC	Scott	Expand OR Support Staffing	469	696	227
	Kirtland	Shift CHAMPUS Workload to VA Center	1,700	2,400	700
	National Capital Area (Andrews)	Ask-A-Nurse Pilot Project	140	-	-140
AFLC	Wright-Patterson Medical Center	CAM Infrastructure	684	916	232
TAC	Nellis	Expand Surgical Services	1,191	2,582	1,391
		Contract ENT	180	387	207
		Contract Urology	160	387	227
		Expand OB/GYN	455	1,775	1,320
	Five TAC Hospital	QA Support Staff	251	598	347
	Tyndall	Establish on-base Satellite Clinic	260	510	250
		Expand OR Capapbility	550	1,000	450
	Five TAC Hospital	Expand Health Care Finder Function	90	180	90

TAC	Homestead	Establish on-base Satellite Clinic	456	600	144
	Langley & Shaw	Contr RNs to Provide Prenatal OB Classes	8	16	8
	Five TAC Hospitals	Weekend Anesthesia Coverage	130	260	130
SAC	Multiple Locations	Nurse Anesthetists, Recovery Room Nurses, and OR Technicians Augmentation	2,000	4,000	2,000
Air Staff	CONUS MTFs	ER Initiative	11,200	14,560	3,360
	CONUS MTFs	Health Promotion Coordinators	5,100	7,650	2,550
	Total Group A		28,446	44,332	15,886

HEALTH CARE BUDGET INCREASE

Question. In fiscal year 1990, the Air Force is requesting a total of $1.9 billion for its direct care system and its portion of the CHAMPUS Program. This is a 10.6 percent increase over the current estimate for fiscal year 1989.

What percentage of this $1.9 billion will be spent on providing care to beneficiaries and retirees?

Answer. The Air Force currently does not maintain accounting system that records expenses by beneficiaries. However, we do track medical workload by beneficiary categories. Based on projected workload, we estimate about 34 percent of Air Force health care expenditures supports active duty. The remaining is for dependents of active duty, retirees, and their dependents.

Question. Almost 8 percent of the increase from fiscal year 1989 to fiscal year 1990 is for care provided in non-military facilities. What facilities and services are funded with this account?

Answer. The Air Force fiscal year 1990–1991 budget request does increase 10.6 percent or roughly $185 million from fiscal year 1989 to fiscal year 1990. Almost half ($90 million) of the increase is attributed to DOD approved inflation and the remaining $95 million is for program growth. However, the program growth is misleading since our fiscal year 1989 baseline excludes a $99 million unfinanced CHAMPUS bill. This shortfall was caused by a recomputation of the Air Force's share of the CHAMPUS bill under catchment area management. Once reprogrammed, the overall medical budget will reflect no real growth in funding. CHAMPUS is one of many services funded in care provided in non-military facilities. Other health care services are provided by Veterans Administration facilities, Uniformed Services Treatment Facilities, five Primary Care for the Uniformed Services clinics, and from civilian hospitals treating active duty members in emergency care situations.

Question. Are you aware that funding for care outside of military facilities, excluding CHAMPUS costs, has increased 60 percent since 1985? What has been the driver of these increased costs?

Answer. Excluding inflation, care outside of military facilities remained relatively stable in funding for the last five years with the exception of our new PRIMUS clinics.

Question. What portion of the increase is attributable to the establishment of PRIMUS clinics?

Answer. The Air Force began implementing PRIMUS clinics in fiscal year 1988. Up to this date, $12.9 million has been programmed for PRIMUS clinics cost in fiscal year 1989 and increases by $1.4 million in fiscal year 1990.

FUNDING OF FAMILY PROGRAMS OVERSEAS

Question. It is our understanding that in overseas locations the Army medical budget fully supports certain family programs, such as the Exceptional Family Member Program, even though not all aspects of this program are medically related services.

Is this true of your overseas medical budget?

Answer. No, the Air Force has funded only medically related services.

Question. If so, do you believe the medical budget should be funding the total program, or just the medically related portion?

Answer. We believe the medical budget should only fund medically related services associated with the Family Programs.

Question. What is the current funding level of these programs overseas and how does this compare with funding levels in 1987?

Answer. There is currently no separate mechanism to specifically identify Exceptional Family Member Program costs. This program is supported by the same general funds that finance other health care activities within our facilities. However, we estimate that approximately $376,000 were expensed in fiscal year 1987 for the program and that fiscal year 1989 funding will be $308,000. Of course, the fiscal year 1989 level is subject to increases as the year progresses and actual funding options permit the transfer of funds to this particular program.

Question. If you were funding only the medically related portion of these family programs, what should be your 1990 funding requirements, by program? Please compare these figures with your current funding plan for fiscal year 1990.

Answer. While not currently funded or programmed, the fiscal year 1990 medically related services funding requirement for the Exceptional Family Member Program is estimated to be $7.6 million. This funding level would enable the Air Force to establish contractor operated exceptional children referral centers and satellite facilities at various locations in Europe and the Pacific. However, it should be emphasized that even if optimal funding is realized, it will not be possible to ensure the same level of care for these patients in overseas locations as is available within the U.S. Projected program funding for fiscal year 1990 is estimated to be only $0.5 million. Obviously, if we are to meet the intended support requirements of the program without disenfranchising other eligible beneficiaries from authorized services, it will be necessary for us to receive additional funding. It is the drastic disparity between projected requirements and programmed funding that suggests the Air Force either be provided the financial resources necessary to fully support the medically related services requirement of the Exceptional Family Member Program or be granted Congressional relief from the existing legislative mandates. The enactment of the Exceptional Family Member Program without the provision of additional funds to fully support its medical requirements necessitated the allocation of monies from within available resources. To preclude the curtailment of some existing medical benefits to certain beneficiary categories, the Air Force has funded this program on only a very limited basis.

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

Question. The military tests all those entering the force and all active duty personnel on a scheduled basis, for the presence of AIDS.

What is your current positive rate among recruits and how does this compare with the civilian sector?

Answer. The current HIV positive rate for military recruit applicants is 1.4 positives per 1,000 tested. Civilian sector experience is unknown because they have not tested on a large scale.

Question. A new strain of HTLV (AIDS) virus has recently been and how does it compare with the civilian sector?

Answer. The HIV positive rate for active duty personnel tested in the initial test period (February 1986 to September 1988) was 0.95 positives per 1,000. The HIV positive rate for the Air Force HIV retest program (October 1988 to February 1989) is 0.31. Civilian sector experience is unknown for the reason stated above.

Question. A new strain of HTLV (AIDS) virus has recently been discovered and is called the HTLV-IV virus.

Are you testing for this new strain of AIDS virus?

Answer. No, there is no test for this new strain commercially available. HTLV-IV is a newly isolated strain of human retroviruses. HTLV-IV infection does not cause AIDS and has not been shown to cause human immunodeficiency or illness. The Air Force currently tests all active duty, guard and reserve personnel for HTLV-III (HIV), which causes AIDS. The military also tests all blood and blood products for HTLV-I, which causes adult T cell lymphoma (a type of leukemia). The military is not testing personnel for HTLV-I because the prevelance of the virus is extremely low and would not justify testing costs. HTLV-I is found primarily in southwest Asia.

Question. Is the test for this new strain more or less expensive currently performed or will it replace the current testing mode?

Answer. If there were an available test for this new strain, it would not be a replacement.

Question. Is the test for this new stain more or less expensive than the former test? What is the average cost per test?

Answer. Not applicable.

Question. A current method of treating various symptoms of AIDS is the use of the drug AZT.

Are the Services prescribing AZT?

Answer. Yes, the Air Force is prescribing AZT.

Question. Are the military pharmacies carrying AZT?

Answer. Yes, the Air Force carries AZT at Wilford Hall Medical Center (WHMC) pharmacy.

Question. What is the cost of AZT and what is its effect on the medical (especially pharmacy) budget?

The cost of AZT is approximately $10,000-$12,000 per patient per year. The cost impact on the medical center budget at this time is small—about $50,000 a year as opposed to a total WHMC annual pharmacy drug cost of $11,352,098.

Question. What is the current and the fiscal year 1990 level of funding for AIDS testing, treatment and research?

Answer.

FUNDING FOR AIDS

[In thousands of dollars]

	Current level	Fiscal Year 1990 level (estimated)
Testing	1,736	2,000
Treatment	5,581	5,581
Research	([1])	

[1] Army funds AIDS research.

MILITARY FAMILY SERVICES

Question. The report accompanying the fiscal year 1989 Appropriations Act, included direction for the Air Force to evaluate and implement a demonstration project to enhance the counseling provided to military members and their families on family-related violence. The conferees provided $2 million to the Air Force in an attempt to move this project to fruition in a timely manner.

Do you believe that the draft statement of work (SOW) prepared by your staff, will allow for the completion of this demonstration project in fiscal year 1989.

Answer. Unfortunately not. The study portion will be accomplished and a time-line for establishing the training program will be completed; however, the actual training will not be completed—started but not completed. Realistically, it will take at least 36 months to study, design and establish a training protocol, implement that training, then test and evaluate the success of the demonstration. To attempt the training in the time frame provided would be premature. To complete the entire demonstration project in less than 36 months would be a disservice to our people and the program.

Question. The draft statement of work includes a proposal to evaluate the current multitude of family-related programs before the implementation of any new training program for counselors. Do you believe that this is in the best interests of the families currently experiencing difficulties?

Answer. Yes. I believe it is in the families and DOD's best interest. We want to maximize the existing capabilities of current services and programs. We cannot assume that training alone will be the most cost-effective intervention. Our study will identify all factors that will impact on service delivery and demonstrate a multilevel approach, including training, to maximize the utilization of limited resources.

Question. Wouldn't it be better to quickly provide a new training program for counselors so that they can better assist family members? You could evaluate the program at the same time and make adjustments as you go along.

Answer. It is not a good idea to quickly provide a new training program for providers of varied services without accomplishing a study first. Our SOW proposes a comprehensive systematic approach whereby we will have the opportunity to design interventions with the greatest cost benefit. An understanding of how and who provides services to our families within the military community is crucial. Since there are various groups that have different training and service orientation, we need to take the time to study and tailor programs. There are differences at each and every location. We should structure a team building program to maximize the existing resources at each location. Our SOW will account for these differences at Air Force installations, thereby insuring application AF-wide and eventually DOD-wide. If we impose a new training program on the existing system without a systematic review, it would not insure that the training meets the needs of our patients or the providers of services.

[CLERK'S NOTE.—End of questions submitted for the record. The following questions and answers were submitted for the record by Lt. General Frank F. Ledford, Surgeon General, United States Army. Question submitted by Mr. AuCoin and the answers thereto follow:]

DEPLOYABLE MEDICAL SYSTEMS

Question. What has been the Army's training experience so far with the Deployable Medical Systems (DEPMEDS) program?

Answer. The Army has had very positive training experiences with DEPMEDS in both the active and reserve components. The DEPMEDS training program consists of three parts: 1) new equipment training for both operators and maintainers; 2) readiness and sustainment training at the individual/section/crew level and collective unit level; and 3) institutional or traditional "schoolhouse" training. New Equipment Training for both components has progressed well within the original DEPMEDS training strategy. New equipment training for units receiving DEPMEDS equipment is conducted at both the Academy of Health Sciences and at Regional training Sites-Medical. Regional Training Sites-Medical are a new concept to the Army Medical Department. Seven such sites are included in the DEPMEDS program. The first of these 7 became operational during FY 1989. A second site is presently being constructed and staffed. Equipment has been procured for the site and it is scheduled to become operational during early FY 1990. Funding for the remainder of these sites is included in the Five Year Defense Plan. Readiness-sustainment training is conducted via home station training and through medical support of field training exercises. Army units equipped with DEPMEDS have provided on-site medical support during major training exercises and have also deployed to Honduras to perform medical support for forces deployed in theater. Feedback from these exercises has been positive. The Academy of Health Sciences is continuing to develop programs of instruction to provide DEPMEDS training to officers, NCOs and soldiers attending Army institutional basic and advanced individual training.

Question. What are you requesting for funding in FY 1990–1905 for this program?

Answer. Funding for DEPMEDS training has been adequate thus far in the program and is not anticipated to pose a problem during the Five Year Defense Plan. DEPMEDS funding for training is fragmented as it is contained in many different Army Management Decision Packages. These package include, but are not limited to, funding for construction, operating costs, personnel pay, and projects for Regional Training Site-Medical are contained in the Five Year Defense Plan and should be monitored closely. Additionally, the operation and maintenance portions of two DEPMEDS equipment sets for Regional Training Sites-Medical are yet to be procured. Estimated operation and maintenance costs os $600 thousand for the two equipment sets. Procurement is anticipated during FY 1990. The Army will continue budget submissions to meet all anticipated training requirements.

Question. I understand that the U.S. Army Medical Research and Development Command (USAMRDC) has conducted to review of a device which will provide diagnostic tests on blood samples that will reduce human error and bring these critical diagnostic capabilities to the field. I understand this system would be especially effective in diagnosis of malaria for soldiers in the field.

Do you believe that the deployment of a small, lightweight, rugged, automated clinical laboratory device would be valuable to the DEPMEDS program?

Answer. Following evaluation of the QBC Hematology Analyzer for measurement of hematology parameters, for malaria diagnosis and for diagnosis of syphilis, the device was procured for DEPMEDS laboratories. It is presently being looked at for use in laboratories further forward in the combat zone. The U.S. Army Biomedical Research and Development Command laboratory is developing a portable medical laboratory capability for Echelon II use which meets the requirements of the Academy of Health Sciences and Echelon II surgeons. The laboratory must be smaller, lighter and more durable then the Level III and IV laboratories. Similarly, battery power is more important far forward and fewer tests are needed than for Echelons II and IV care.

Question. Do you plan further research into this technology?

Answer. Several off-the-shelf portable laboratories have been evaluated and although none meet all the requirements, some components may be used in the final version of the Division level clinical laboratory.

Question. If so please outline the program you expect to pursue.

Answer. Milestones for the clinical laboratory are:

Complete market surveys of candidate nondevelopmental instruments and microbiology and serology kits are scheduled for the third quarter of FY 1989.

Complete report and recommendations for the Combat Developer, the Academy of Health Sciences, should be submitted by 31 December 1989

Question. I understand that DEPMEDS has recently issued an order for field cardiac monitoring and defibrillating devices. What is your timeline for acquisition of these devices, the amount of FY90 and 1991 budget for these items, and when do you expect they will be operational in the field?

Answer. A contract for the defibrillator and the electrocardiograph monitor-recorder was awarded on 27 March 1989 to the Hewlett-Packard Corporation. The contract number is DLA-120-89C-8518. First article is scheduled to be delivered to the Army for testing by 24 August 1989. Production delivery is scheduled to begin on 8 December 1989. The Army's delivery schedule (tentative) is as follows:

Defibrillator: 160 per month, beginning December 1989.

ECG Monitor-Recorder: 340 per month, beginning December 1989.

The dollars required to procure defibrillators and ECG monitors for the 17 hospitals being procured in FY90 and FY91 are included in the budget submit and total $1,358,573 in FY90 and $1,072,114 in FY91.

First unit equipped date and operational capability should occur in January 1990.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin. The following questions submitted for the record by Mr. Murtha for Mr. Gray, a member of the Appropriations Committee, and the answers thereto follow:]

TRAUMA INJURIES

Question. What percentage of the overall medical treatment within Department of Defense facilities is for trauma related injuries?

Answer. The definition of "trauma" is broad. Our statistical base is aligned by specific diagnoses. There were 374 gunshot wounds coded in the data base. This represented 365 patients. There were 94 head wounds, 116 wounds to the trunk, 74 wounds to the upper extremities, 101 wounds to the lower extremities, and 4 unknown anatomic position; the total being 389. The difference in the total represents the possibility of multiple gunshot wounds to one individual. The number of admissions for "injuries" as a poorly defined category is 23,906. The total number of admissions in calendar year 88 was 290,257. We could say in rough terms that 8.2% of our admissions are for injuries. You understand that all "injury" is not major trauma.

Question. What are the typical trauma injuries incurred? For example, head injuries, spinal cord, gunshot wounds.

Answer. This question could be answered with a laundry list of diagnoses and I'm sure you would not want to go through that. However, our data base has been programmed to show us the incidence of a particular diagnosis. The top ten diagnosis are the following. Intracranial injury; Closed fracture of the ankle; Open wound of the face; Sprained cruciate ligament of the knee; Sprain or strain of the ankle; Fracture of the radius and ulna; Tear of the medial cartilage of the knee; Fracture of the tibia and fibula; Open wound of the fingers, with tendon injury; Fracture of the mandible; and Fracture of one or more bones in the hand. In another question we addressed gunshot wounds. If "gunshot wound" was a "pure" category, it would rank ninth or tenth. It is critical to point out that severity is not a programmed element, therefore these injuries may represent minor trauma. We see all types of injuries. The variety is only limited by the permutations of the mixture of burns, crushes, penetrations and lacerations. We are not seeing the volume of trauma that approaches major trauma centers across the nation today. However, I believe that the Army Safety Programs are reducing accidents on our busy training posts. This is one of the reasons the Army Medical Department is not seeing a volume of trauma.

TREATING COMBAT INJURIES

Question. During the Vietnam War, a great deal of knowledge was gained in treating combat related injuries. A large number of Vietnam Era doctors, however, are no longer in the armed services. As such, what efforts are being made to insure that the knowledge gained in Viet Nam is maintained? Are efforts ongoing with those medical personnel to insure continued research in this vital area?

Answer. Historical knowledge is very important. Relearning "lessons learned" is not economical nor is it good practice of medicine. To this end we have continued to capture this information and publish it in professional journals, texts, and other media. This knowledge base is used in our Graduate Medical Education programs in the Army, at USUHS, in our Combat Casualty training courses at the Academy of Health Sciences and in specialty lectures at various conferences on combat casualty care.

Many of you have seen the WWII series, published by the Office of The Surgeon General and The Center of Military History, which has many volumes and documents our experiences specialty by specialty. Recently Colonel Russ Zajtchuk has initiated a series of textbooks of Military Medicine, which will bring the student of military medicine up to the present and move him or her forward into the future by discussing the battlefield environment, echelons of care, mechanisms of injury, diseases due to non-battle-injury and the specific care by various medical and surgical specialties. Brigadier General Tom Bowen recently edited and published the latest edition of the United States version of the "Emergency War Surgery NATO Handbook". We think the Army Medical Department is doing an excellent job of capturing important medical information from the experiences of those fine young men during the Vietnam conflict and rectifying it.

As you know we provide peacetime medical care on a day to day basis for a large constituency. This same force must be ready to provide medical care at a moments notice should deterrence fail. We have used this historical information together with the science and technology of the future in the development and execution of several courses that will enhance the medical and surgical skills needed in wartime. The Combat Casualty Course (C–4), C–4 B, C–4 A, and other skill enhancement training will use this information and broaden the capabilities of our excellent medical force. My goal is to provide the finest peacetime care in the world and use those same people, pediatricians, obstetricians, and others to provide our soldiers the best care on the battlefield if deterrence should fail.

TRAUMA RESEARCH FUNDING

Question. What level of funding within the Department of Defense medical system goes for trauma research as compared to research on infectious diseases?

Answer. In fiscal year 1990, the President's Budget Request is $20 million for Army medical trauma research and $41.3 million for infectious disease research. Historical data demonstrates in all previous wars and conflicts that seventy percent of all hospitalizations of U.S. forces were caused by infectious diseases.

WARTIME MEDICINE

Question. What is the nature of ongoing research and development critical to wartime medicine?

Answer. All research conducted by the Army Surgeon General through the U.S. Army Medical Research and Development Command is critical to wartime medicine. Major research programs in Medical Chemical Defense and Medical Biological Defense are directed toward developing products or materiel not only to prevent injury and sustain the force through the development of pretreatments, prophylaxes (i.e., vaccines) and antidotes adversaries. Research in Infectious Diseases of Military Significance is directed toward developing products or materiel to reduce the historically high hospitalization rate for U.S. forces in conflicts. Medical research programs in Army System Health Hazards seek to develop the means of protecting U.S. forces from injury or performance decrements due to environmental extremes, stress and hazards of operating military systems. Combat Casualty Care, including combat maxillofacial injury research, seek to develop the technology and materiel to preserve life on the battlefield. Specific research includes studies in shock and resuscitation, blood preservation and blood substitutes, organ system injury and failure, burns, wounds and wound healing, and combat medical devices and materiel.

COLLABORATION WITH CIVILIAN INSTITUTIONS

Question. What is the nature of research and development that is conducted in collaboration with civilian medical academic institutions? How is it supported?

Answer. Medical research conducted in the Army in collaboration with civilian medical academic institutions is directed, as are all Army research and development efforts, to resolve Army deficiencies, and counter the threats to U.S. forces. These efforts are supported through extramural research programs via contracts and grants.

INCREASED PARTICIPATION OF CIVILIAN RESEARCHERS

Question. What benefits do you see for increased participation of civilian researchers in the Department's medical research and development efforts?

Answer. Participation of civilian researchers can assist the Army in the effective and efficient development of medical technology and materiel to protect U.S. forces against illness and injury or to assist in the development of treatment regimens and materiel to save lives, minimize suffering and enhance the return to duty rate.

[CLERK'S NOTE.—End of questions submitted by Mr. Gray. Questions submitted for the record and the answers thereto follow:]

BASE CLOSURE AND REALIGNMENT

Question. General Ledford, the Report of the Secretary's Commission on Base Closure and Realignment recommended for closure realignment, two of your facilities.

Ft. Dix, New Jersey—Realignment of Ft. Dix includes a review to determine whether Walson Army Hospital should be retained or downgraded to a clinic.

The Presidio of San Francisco, California—Closure of the Presidio includes the closing of Letterman Army Medical Center.

Based upon the Commission's report, are there other facilities which you believe will be affected?

Answer. The recommendations in the Commission's report do affect other facilities of the Army Medical Department. The realignment of Fort Dix will affect the installations where Basic and Advanced Individual Training courses are being transferred. These installations are Forts Ben Harrison, Jackson, Leonard Wood, Knox, and Lee. McGuire Air Force Base, which is adjacent to Fort Dix, will also be affected. The Health Clinic at Fort Sheridan, Illinois will also be closed. Most of the active forces at this location will move to Fort Benjamin Harrison, Indiana. Some of the medical manpower from Fort Sheridan will be required to increase the capability of the hospital at Fort Benjamin Harrison, Indiana. In addition, Tripler Army Medical Center will be affected by the homeporting of Battle Group Missouri to Hawaii; Fort Carson Army Community Hospital will be affected by the movement of 6th US Army Headquarters (and supporting units) from the Presidio; the transfer of a C-141 squadron from Norton to McChord Air Force Base and the carrier Nimitz to Puget Sound will impact on health care provided by Madigan Army Medical Center; and the transfer of training programs from Chanute to Lowry Air Force Base will place increased demands on Fitzsimmons Army Medical Center.

Question. Are you reviewing the situation to determine the best way to provide alternative care for retirees and other beneficiaries in these areas?

Answer. Through the Office of the Assistant Secretary of Defense (Health Affairs), the Army, Air Force, and Navy are conducting a thorough analysis of the workload in the San Francisco Bay Area and in the Delaware Valley Health Services System area. Several alternatives are being considered for providing care to beneficiaries in the DOD health care system after closure of Letterman Army Medical Center and the departure of the larger active duty populations from Fort Dix. After determining the facility requirements based upon populations to be served, we will coordinate with the other Services affected to establish the most economic method for providing health services to those beneficiaries.

Question. Do you plan to redistribute the medical equipment and staffing to your other facilities to increase their workload?

Answer. At those facilities where workload is increased by relocation of active Army, Navy and Air Force units, it will be necessary to increase staffing. Where economically feasible, medical equipment will be moved to enhance the capabilities of the impacted facilities. The Commission's report did not reflect any savings in medical manpower in the Army. It is recommended that all these resources be reallocated to absorb the additional workload or for reassignment to installations with large troop populations or where we can recapture extensive CHAMPUS expenditures. This can be done by providing services heretofore unavailable due to reduced staffing levels at the specified installations. We recommend redistribution of these assets according to the following priorities:

Priority 1—Increase the capability of the medical treatment facilities (MTFs) on the installations (Forts Jackson, Leonard Wood, Ben Harrison, Knox, and Lee) where the training will be realigned. Increase capability at Fort Carson where Presidio activities will be realigned.

Priority 2—Preserve the graduate medical education (GME) training capability by enhancing the capability at Oakland Navy Hospital, Madigan Army Medical Center and other Army medical treatment facilities.

Priority 3—Increase the health care delivery capability at installations that are being affected by increased Navy and Air Force health care demands.

Tripler Army Medical Center: Navy Homeporting Battle Group Missouri at Pearl Harbor; approximately 5000 active duty personnel plus dependents.

Madigan Army Medical Center: Navy Homeporting aircraft carrier Nimitz in Puget Sound (approximately 7,500 active duty plus dependents; Air Force realigning a C-141 squadron from Norton AFB (618 active duty plus dependents).

Fitzsimmons Army Medical Center: Air Force realigning training programs from Chanute AFB (over 1,200 active duty plus dependents).

Reassign any remaining assets to increase workload at other locations thereby reducing CHAMPUS utilization.

Question. From the standpoint of medical readiness requirements, do you believe Letterman Army Medical Center should be closed?

Answer. The decision to close Letterman Army Hospital (LAMC) was not based solely on medical readiness. However, the closure does require the Army to investigate alternatives for maintaining medical readiness. For example, the Army must determine how it will continue support of contingencies in the Pacific and how it will restructure the referral network in the western United States to continue sophisticated care such as neurosurgery and thoracic surgery. Further, the loss of LAMC requires shifting the capability to train surgeons and other key specialists required in both war and peace to another medical center. We have begun the requisite planning to replace these losses.

VA/DOD RESOURCES SHARING AGREEMENTS

Question. General Ledford, the Department has approximately 140 agreements with the Veterans Administration. DOD pays VA for supplying over 1,500 services, from surgical care to pediatrics.

These agreements are developed at the local level and allow the hospital commander to contract with a local VA hospital to provide care that cannot be provided in the military facility.

In FY 1989, the House Armed Services Committee directed DOD to start using CHAMPUS funds to increase the number of sharing agreements, anticipating that this action would reduce CHAMPUS costs. The Senate Armed Services Committee and this Committee did not agree to that approach due to the inability to audit these agreements and the uncertainty of the impact on a military hospital's efficiency. We have the Administration's position based on an OMB response to GAO, but we would like your personal opinion on these sharing agreements. Please share your opinion with us.

Answer. As you are probably aware, the purpose of the VA/DOD Health Resources Sharing Act was to encourage the sharing of health care resources between the two Federal Agencies. Greater sharing of resources will result in enhanced availability of health benefits for veterans and members of the Armed Services, reduced costs to the government by minimizing duplication, and maximum utilization of available health care resources. At the same time each agency must insure that their own beneficiaries are not being displaced, and in the case of DOD, that the readiness mission is not compromised.

Question. What do you believe will be the long-term impact of these agreements? It is possible that the two systems would be merged or that DOD funding would be used to subsidize the VA?

Answer. The long-term impact of present sharing arrangements should be the saving of taxpayers' money and greater utilization of existing VA facilities and capabilities. A merger of two huge organizations with different missions would almost certainly demand an even more cumbersome bureaucracy, with attendant inefficiencies and inflexibility. With entitlement restrictions being placed upon both Federal agencies (Title 10 USC for DOD and Title 38 USC for VA), the enactment of the VA/DOD Sharing Act provided opportunities to allow utilization of each other's available capabilities and the opportunity to provide selected support to each others beneficiaries. If the two systems were "merged," there would be the distinct possibility of DOD losing control and responsibility for the essential daily medical training necessary to maintain the medical "go to war readiness" and the welfare of active duty members and their families. Depending upon which agency controls the appropriations, they may use those appropriations to care for the population they wish (i.e., fund totally the VA population or fund totally the DOD population, either way one population would be displaced/be denied access to entitled care). As it stands now, under the Sharing Program, services are reimbursable with each agency providing for their own population by purchasing care at cost to the providing agency.

Question. How many agreements does the Army have with the VA in which the VA is providing care to DOD beneficiaries? What is the total cost of these agreements and what cost savings have been verified?

Answer. Currently, the Army Medical Department has 50 sharing agreements with the VA. Only active duty beneficiaries are eligible for care under these agreements. For other than active duty beneficiaries, obtaining medical care through the VA is prohibited by law and CHAMPUS funds cannot be used to reimburse the VA. Thereby, requiring that category to obtain care from the civilian sector at a more expensive cost to CHAMPUS. Present experience indicates a 30 to 50 percent savings for the Army. Three examples that have been identified are Walter Reed Army Medical Center saving over $48,000, Womack Army Hospital at Ft. Bragg saving over $135,000, and Dwight D. Eisenhower Army Medical Center saving over $355,000 from Sharing Agreements. According to VA information, the ratio of services purchased are 2.5 to 1 for the DOD and VA respectively. Generally more care would always be purchased from the VA since their medical facilities are generally larger and carry more medical specialties. The Department of the Army is initiating a VA/DOD tracking system that will identify the sharing agreements, services being provided, cost savings/avoidances, beneficiary category (optional), rates negotiated, reimbusrements paid/collected from VA, etc. The information is currently being collected at the Military Treatment Facility level but not centralized.

PHYSICIANS PAY

Question. The Department recently submitted the Health Professionals Special Pays Study and Plan for the Implementation of the 1989 Medical Officer Retention Bonus. This study indicates that military physician pay has not kept pace with physicians in the civilian sector. General Ledford, we have heard a number of complaints from physicians who are upset because they feel your study does not adequately compensate all categories of physicians. Would you care to comment on the physician pay study?

Answer. The issue of insufficient pay and compensation is unique in that it was specifically addressed by Congress in 1981 and is the focus of a great deal of our collective energy and efforts at the present time. The pay programs which proved so beneficial to the military departments in the early 1980's as a retention tool have remained essentially unchanged since their inception. The only changes to military physician compensation since 1981 have come through annual increases to regular military compensation (RMC) and increases to Incentive Special Pay (ISP) for certain designated specialists during fiscal year 1988. During this period compensation for civilian physicians has grown considerably, far outstripping the RMC increases and the consumer price index (CPI). Between 1981 to 1988, private sector market forces eroded the competitive advantage of the 1980 pay program by 48 percent.

In the fiscal year 1989 National Defense Authorization Act (P.L. 100-456, Sec. 612), the Congress addressed the physician retention issue by authorizing the Department of Defense (DoD) to pay a one time Medical Officer Retention Bonus (MORB) during fiscal year 1989. As a condition of this program, DoD was to provide two reports to Congress. The first, which was submitted 15 November 1988, required DoD to describe how the MORB would be implemented. The second report, which was submitted 1 December 1988, required DoD to prepare a comprehensive recommendation for permanent improvements to military health professional compensation. The second report, which is entitled Report to Congress on Armed Forces Health Professionals Special Pays is commonly referred to as the pay study. Due to the complexity of the analysis, the initial pay study reports addressed physicians only. Nurses, optometrists, clinical psychologists, pharmacists, and all other health professionals are being addressed at this time.

The methodological approach of the pay study has been the cause of much of the concern and dismay being vocalized by our physician work force. At the direction of Congress, the pay study linked one's specialty and specialty experience to comparable private sector compensation. This linkage necessitated dividing our specialists into groups with surgeons being placed in the highest paid category and our primary care base in the lowest categories. Grouping our physician specialists into pay categories runs counter to our referral based system where equity or professional equivalence has been the guiding principle of how we practice medicine and are compensated for our efforts.

During the preparation of the initial reports, I stressed the need for the inclusion of our primary care specialists in the MORB as well as any future improvements to military physician pay. I took this position because of my own analysis of the data, and a belief based on years of experience in the Army Medical Corps that we would be inviting disaster to do otherwise. Although I would have strongly preferred that they receive larger amounts, primary care and certain other specialists were included in groups 6 and 7 in the DoD (HA) prepared MORB plan submitted to the Congress on 15 November 1988. On 4 January 1989, following a review of quantitative data pertaining to historical retention rates and military-civilian physician pay differentials, the DoD issued a memorandum deleting groups 6 and 7 from the MORB. However, on 24 March 1989, after reviewing additional data and analyses regarding retention and manning of these specialties, the Deputy Secretary of Defense, reinstated groups 6 and 7 for MORB eligibility and placed pediatric subspecialties in group 5. Additionally, Deputy Secretary of Defense added groups 6 and 7 in the proposed fiscal year 1990 Medical Special Pay plan proposed in the 1 December 1988 report. The Deputy Secretary of Defense's 24 March 1989 decision was a direct result of the three Surgeons General requesting their respective Service Secretaries to pursue this policy change within the Department of Defense. The initial feedback from the field concerning the reinstatement of 45 percent of the physician work force for MORB eligibility has been extremely favorable.

Question. The estimated cost of this physician pay plan for fiscal year 1989 is $29.5 million. What is the Army's portion of the $29.5 million?

Answer. The $29.5 million to which you refer is for the fiscal year 1989 MORB only. The Army's share for the MORB is $13.5 million.

STAFF SHORTAGES

Question. Pay is not the only dissatisfier for military physicians. We understand that there is a serious shortage of nurses and support staff, including administrative personnel. Due to these shortages, hospitals are not operating efficiently and physicians are frustrated in their desire to increase patient care. General Ledford, in your opinion, what occupations are experiencing the most severe shortages?

Answer. The Army Medical Department (AMEDD) is experiencing shortages throughout our direct health care system, in the active component, the reserve component, and with our civilian work force.

a. In the active component, our most severe shortages for health care providers other than physicians are presented in the following matrix (Individual specialties plus aggregate totals for Army Nurse Corps and Dental Corps):

Specialty	Budgeted end strength authorized	Inventory month end September 1988	Projected fiscal year 1994
Optometry	216	141	122
Pharmacy	235	207	199
Operat. Room Nurse	399	363	348
Nurse Anesthetist	295	258	248
Clinical Psych.	127	83	90
Occupational Ther.	90	89	80
Physical Ther.	201	202	178
Army Nurse Corps	4,965	4,542	4,117
Dental Corps	1,664	1,637	1,529

We are beginning to be concerned with shortages with physician assistants, laboratory animal medicine veterinarians, and most of our biomedical scientists.

b. In the reserve component, our most severe shortages are with nurses and our wartime critical skill physician specialities (general surgery, orthopedic surgery, and anesthesiology). Given that our Reserve Component provides 77 percent of the wartime critical skill physician specialties, our aggregate shortages for our physician specialties masks the seriousness of our wartime critical skill physician shortages. A summary of our most severe reserve component shortages are summarized in the following matrix:

Corps/Specialty	Req	Auth	Inven	Delta
Medical Corps	9,394	5,195	6,892	−2,502
Army Nurse Corps	22,624	8,981	11,932	−10,692
Critical Wartime Physicians	4,456		1,100	−3,356
Nurse [1]	17,704		8,332	−9,372

[1] Operating Room Nurses, Nurse Anesthetists, Medical-Surgical Nurses.

c. In our civilian work force, the most severe shortages are Surgeons, Anesthesiologists, nurses (all specialties), Occupational Therapists, Pharmacists, Cytotechnologists, and Nuclear Medical Technicians. We are beginning to see an increasing rate of vacancies in Physical Therapists, Medical Records Librarians (Administrators), Perfusionists, and Medical Clerks.

Question. Do you plan to submit legislation to address these shortages?

Answer. Several legislative initiatives are in the developmental stages in the Office of the Surgeon General, Department of the Army, DoD, or have been submitted to or initiated by the Congress. For the active component, the physician portion of the Health Professional Special Pay Study was submitted to Congress December 1, 1988. The nurse and other health professional portions to the special pay study are being finalized at this time in the DoD arena. Senator Inouye recently submitted a bill (S. 131) to exempt the Army Nurse Corps from field grade authorization limitations currently imposed by the Defense Officer Personnel Management Act (DOPMA). A separate action on the same subject is currently being staffed between my office and the Office of the Secretary of the Army for Manpower and Reserve Affairs. In effort to learn from the experiences of our Reserve Component colleagues, my office is developing a proposal for a Health Professional Loan Repayment (HPLR) Program as a recruitment incentive. The only Reserve Component legislative action currently being staffed is an improvement in their HPLR. The current limitation for loan repayment is $3,000 per year and a $20,000 maximum. I am asking for an increase to $6,000 per year and a $40,000 maximum. The action is currently being reviewed by DoD.

In addition to the legislative initiatives enumerated above, the AMEDD is involved in a multitude of programs and projects that address our staff shortages and any associated physician dissatisfaction. In order to not leave you with a false impression that we are attempting to solve our staff shortages soley through legislative intervention, I wish to highlight one of our other than legislation initiatives. In 1985, my predecessor initiated the Army Medical Enhancement Program (AMEP), an initiative I strongly indorse. The AMEPP identifies the need for additional clerical and clinical support personnel, as well as equipment and primary care physicians to effectively operate the health care system, maximize physicians productivity, and hopefully minimize physician dissatisfaction. We have made gains toward achieving these AMEP objectives and will continue these efforts as long as funding permits.

Question. In the Committee's version of the fiscal year 1989 DoD Appropriations bill, we included a provision which would have given DoD the authority to pay prevailing wage rates for certain health care professionals. This provision was subsequently deleted on the House floor. Do you think this is a valid way of addressing health care staff shortages?

Answer. The originally proposed provision of the FY 1988 Defense Appropriations Bill (Section 8110) would have permitted DoD to waive Federal laws and regulations concerning the wage rates for shortage health care occupations in high cost areas. The language was amended to delete the words ". . . law or . . .", which essentially left the provision without effect, since most civil service compensation provisions are embodied in statute. This provision, as originally proposed, would have given DoD authority to address several short term compensation issues, and would have provided additional authority to address other issues such as shift work compensation and scheduling. To the extent that the bill would have provided those options it would have been tremendously beneficial; in some occupations in some areas we would not have the shortages which exist today. The original language, however, would not have granted the flexibility needed in the classification of positions or the establishment of qualifications and grades as is found under Title 38 USC or by establishing an expected service for health care occupations. These latter provisions are ones which will be invaluable to the long term solution of our recruitment and retention problems. Nonetheless, while we work to establish a beneficial and viable alternative employment and compensation approach, we would encourage the Congress to reconsider granting such authority to DoD at the earliest possible time.

STATUS OF ALTERNATIVE USE PROJECTS

Question. In fiscal year 1989, in response to requests from the Services to use CHAMPUS funds for other than CHAMPUS claims to pay for "alternative use" projects, the Committee agreed to allow each Service to use up to $50 million for approved projects.

The Services claimed that the use of these funds for other uses would, in turn, reduce CHAMPUS costs. Additionally, the Services informed the Committee that they had a number of projects that could be quickly implemented, if only given the go-ahead.

We are now half-way through the fiscal year, how many of these projects have been approved by your office?

Answer. On the initial submission, HSC developed 16 projects. The deadline for submission of proposals was extended until 31 March 1989, HSC submitted 9 more. Of the initial 16 projects developed, 14 were approved. Of the 14 approved projects, 10 have received fiscal year 1989 funding.

Question. How many of these projects have been implemented?

Answer. All of the 10 projects which have been approved for fiscal year 1989 funding are in the process of being implemented.

Question. What is the estimated CHAMPUS savings for fiscal year 1989 and fiscal year 1990 from these projects and have these savings been included in the budget?

Answer. A savings of $5.3 million are annualized savings for the 10 projects approved for fiscal year 1989 funding. An additional $5.5 million is anticipated from the additional 9 project submissions. Actual amount saved in fiscal year 1989 will be determined by the actual implementation date, but the initial 10 projects are estimated to be $2.5 million. The savings are not reflected in the current budget.

FISCAL YEAR 1989 MEDICAL ENHANCEMENTS

Question. In fiscal year 1989, Congress provided a $141 million increase to the Army's medical budget. This increase was provided to allow the Army to increase the level of care in their military facilities. The current budget request indicates that the bulk of this increase is being spent for dental care, examinations for recruits, and care in non-defense facilities. How does this increase the amount of care you are able to provide to active duty, beneficiaries, and retirees?

Answer. The increase in Dental Activities reflects funding for AIDS/blood-borne disease protection and replacing losses of military dentists with contract personnel. Examinations for recruits increased due to a transfer of $17.2 million from the budget activity, Other Medical Activities. Care in Non-Defense facilities is funded for supplemental care, full funding for Primary Care to the Uniformed Services (PRIMUS) in fiscal year 1989, and Uniform Service Treatment Facilities (USTF) cost growth.

Question. Please provide us some examples of how this additional $141 million allowed you to increase the workload at your facilities.

Answer. All of the items funded with the $141 million, with the exception of Beneficiary Increase, maintain care at the fiscal year 1988 level or fund programs mandated by the Congress or OSD. They do not produce additional workload. However, should these funds not have been received, workload would have declined with a resultant major increase in CHAMPUS usage and costs.

Question. Please provide a break out of the $141 million and provide a brief description of the items or services purchased with this additional money.

Answer. See the following chart.

APPROPRIATION INCREASE OF $141 MILLION

($ IN MILLIONS)

AIDS/BLOOD-BORNE DISEASE PROTECTION- Purchases gloves, eye protection, impermeable gowns, dental handpieces and other protective supplies, and equipment to contain spread of disease.	$ 25
BENEFICIARY INCREASE- The beneficiary population is growing approximately one half of a percent (.5%) per year. $18 million provides funds to provide health care to the increased population. This is the only item of the $141 million that increases workload.	18
MEDICAL/NON MEDICAL INFLATION- Provides cost growth to maintain FY 1988 level of care. Medical inflation of 7% was applied to 35% of the budget, the portion covering medical supplies, equipment, and contracts.	59
PROVIDER CONTRACTS- Replaces military physician losses with civilian or contract providers which are funded with Operation & Maintenance funds.	18
CHCS- Supports deployment of Congressionally mandated hospital information management systems.	11
DRUG COUNSELORS- Places drug counselors at sensitive Army locations.	3
PRIMUS FULL YEAR- Funds clinics opened late in FY 1988 for full year in FY 1989.	3
DRG/OTHER REQUIRED- Purchases software, hardware, contracts, maintenance, training, supplies, site preparation, usage costs for the implementation of the DRG system. Also provides cost growth for tuition increases for the Health Professions Scholarship Program.	4
TOTAL INCREASE	$141

ARMY'S MEDICAL BUDGET REQUEST

Question. In fiscal year 1990, the Army is requesting a total of $2.7 billion for its direct care requirements and its portion of the CHAMPUS program. This is a 5.76 percent increase over the 1989 current level of services. Is this level sufficient to maintain services in your facilities?

Answer. The fiscal year 1990 budget request is $1.742 billion for the Direct Care System and $845.8 million for CHAMPUS for a total health care budget of $2.588 billion. This level of funding maintains the fiscal year 1988 level of care while accommodating increases in the beneficiary population, cost growth, and losses of military health care providers. At the time budget estimates were developed, this level of funding was considered adequate although it opened no new PRIMUS clinics (four had been programed for fiscal year 1990) and it provided a phased approach to funding increases for the Exceptional Family Member Program.

A major concern, one which is receiving greater attention, is the increasing number of military health care providers who are leaving the Service. This creates an unusual demand on the Operation and Maintenance appropriation. While military physicians are paid from the Military Personnel appropriation, when civilian and contract personnel replace them they are funded by the Operation and Maintenance appropriation. It has been estimated that between fiscal year 1987 and fiscal year 1989 staffing availability of military primary health care providers (physician assistants, general medical officers, family practice physicians, pediatricians, general internists, and emergency physicians) will decline by approximately 200 staff. If losses continue, resources identified for specific purposes in the budget request will have to be diverted. Shortfalls could result which would affect the system's ability to increase workload in-house and stem the flow of care to CHAMPUS.

Question. The main increases in the Army's budget are for the provision of care in their own facilities and the maintenance and repair of those facilities. However, a historical comparison shows that since 1985, the greatest increase, outside of CHAMPUS, is for care in non-defense facilities. What has caused this account to increase by over 80 percent in 5 years?

Answer. Since 1985, the budget activity Care in Non-Defense has grown 80 percent. The following is a historical accounting of the resources:

Fiscal year 1985 base	$99
Inflation	25
PRIMUS	[1]30
USTF	[2]12
Supplemental care	[3]13
Total	179

[1] Clinics.
[2] Increased use.
[3] High-tech procedures.

Question. What portion of this increase is attributable to the establishment of PRIMUS clinics?

Answer. $30 million of the $80 million growth was for establishing ten PRIMUS Clinics.

FT. BRAGG MENTAL HEALTH DEMONSTRATION PROJECT

Question. The report accompanying the fical year 1987 DOD Appropriations bill included direction for the Army to conduct a mental health care demonstration project in the Fort Bragg catchment area.

The report accompanying the fiscal year 1988 DOD Appropriations bill reiterated the Committee's direction and stated that the project should begin as soon as possible in fiscal year 1988.

In last year's hearing, Dr. Mayer stated that the project would be in place before the end of 1988.

It is our understanding that the Fort Bragg Mental Health Care project is not yet in place as directed by this Committee and as promised by the Department. What is the hold up?

Answer. The 5-month delay experienced between the publishing of the Synopsis and the Army approval of the proposal was caused by the need to resolve differences between the North Carolina's proposed and the Army's desired level of services and the associated standards of quality assurance. Concerns raised by The Office of the Surgeon General revolved around the State of North Carolina not having all the required services available and all the qualified professional personnel needed to provide the quality care to authorized beneficiaries. A fully detailed proposal was approved by DA on December 2, 1988 and by OSD(HA) on December 20, 1988. Since my recent appointment as The Surgeon General of the Army, I have reviewed the problem and taken action to ensure expeditious implementation of the demonstration project. The present schedule will result in contract award by July 31, 1989. Timing is controlled by the Federal Acquisition Regulation. Contracting schedule is on track. No delays are anticipated, however, the State of North Carolina has to provide several documents/deliverables for approval before contract award and/or before services are initiated.

Question. Does the fiscal year 1990 budget request include the required funding for the project? If so, how much is requested? If not, how much is required?

Answer. The fiscal year 1990 budget request does include the required funding. The funds are imbedded in the CHAMPUS budget. The project is expected to demonstrate a reduction to the $3.8 million spent in CHAMPUS funds for mental health services in the Fort Bragg area in fiscal year 1986.

FUNDING OF FAMILY PROGRAMS OVERSEAS

Question. General Ledford, it is our understanding that in overseas locations, your budget pays for certain family programs, such as the exceptional family member program, even though not all aspects of this program are medically related services. Is this funding arrangement different at CONUS Locations?

Answer. There are two family programs overseas that are involved and they are the Exceptional Family Member Program (EFMP) and the Army Family Advocacy Program (AFAP). Of these two programs, only EFMP is paid for from the medical budget (Program 84). The AFAP is paid for out of funds received from the Office Secretary of Defense (Program 10200). Regarding EFMP, you are correct in that not all aspects of the program are medically related; however, all aspects funded by medical funds are either health care related or the medical portion of special education requirements required by public laws.

In CONUS, medically related services are provided to handicapped school children through the same funding mechanism as special education and regular education, i.e., the local educational agency. EFMP in CONUS locations provides screening, evaluation, coding (estimate of the level of medical and educational care needed by a given patient), and teaching in medical training programs. EFMP in OCONUS locations provides medically related services (approximately 85 percent of the budget); screening and coding for family members moving to another OCONUS location (approximately 5 percent of the budget); and (where time permits) some therapy services to handicapped children too young to attend school (approximately 10 percent of the budget).

Question. In your opinion, should the medical budget be funding the total program, or just the medically related portions?

Answer. The EFMP budget is the appropriate vehicle for funding the other aspects of the EFMP in addition to the medically related service provision OCONUS. The AMEDD EFMP is the appropriate pool of professionals to be conducting screening, evaluation, coding, and teaching stateside. Likewise, EFMP professionals are frequently the only professionals qualified OCONUS to provide therapy to handicapped infants and toddlers. We regard this therapy as medical care, it is provided to only a small percentage of the children who require it, and it is provided only when the EFMP has met its obligation to provide services to the school aged children.

Question. What is the current funding level of these programs overseas and how does this compare with funding levels of 1987?

Answer. The current level of EFMP is as follows:

[in millions of dollars]

	Fiscal year		Difference
	1989	1987	
USAREUR	7.1	5.9	1.2
Korea	1.0	0	1.0
Total	8.1	5.9	2.2

Question. If you were funding only the medically related portion of these family programs, what would be your fiscal year 1990 funding requirements by program? Please compare these figures with your current funding plan for fiscal year 1990.

Answer. Current projections for demand for medically related services overseas are that the demand will remain constant, except in Panama, where a decrease is expected, but not quantified at this time.

[in millions of dollars]

	Need for medically related services, fiscal year 1990	Projected funding, fiscal year 1990
7th MEDCOM	8.4	8.4
18th MEDCOM	1.0	1.2
Panama	.3	.3

Fiscal year 1990 monies projected for 18th Medical Command are increased by $200,000 to allow for provision of some services to non-command sponsored school-aged handicapped children, and to handicapped children under the age of 5 years.

All EFMP personnel in 7th and 18th Medical Command currently have as their first priority and largest workload the provision of medically related services. In some locations, where personnel are not fully occupied with the school-age population, they provide therapy services (medical care) to handicapped children who are not enrolled in DoDDS special education programs because they are not old enough, are not "handicapped" enough, or are non-command sponsored.

However, an effective EFMP Program involves more than just provision of medically related services to DoDDS students. Stateside screening to identify family members who need special consideration in the assignment process and coordination of the medical and educational information about those needs is also required. The estimated cost of this screening is $11 million, currently $5.4 million is projected in the 1990 budget.

Funding of medically related services only will preclude the provision of developmental intervention and therapy services (medical care) to handicapped children overseas too young to enroll in DoDDS. The estimated total cost for provision of these services is $29 million per year. In fiscal year 1990, $200,000 is projected for 18th Medical Command and none for 7th Medical Command. Ideally, these monies would ramp up over five years to allow for supervised program development and growth.

Complete funding for the EFMP:	*Million per year*
Medically related services	$9.7
Screening	11.0
Early intervention overseas	29.0

LYME DISEASE

Question. A recent article in the *Hartford Courant* (Oct. 19, 1988), stated that Lyme disease is being discovered in Army and Marine Corps personnel. Lyme disease is spread by ticks and is a danger to all troops training in wooded areas. The spread of Lyme disease is of special concern for our forces overseas and those assigned to monitoring the INF Treaty in the Soviet Union. What exactly is Lyme disease and how serious a threat is it?

Answer. Lyme disease is a tick-transmitted disease caused by a spirochete. First symptoms are flu-like and usually the patient has a very characteristic rash. Chronic arthritis as well as neurological and cardiac problems may develop as a complication of the disease. Recent communications with the Centers for Disease Control revealed that it has been reported from 44 states. In the United States the disease primarily occurs in the northeast, from Massachusetts to North Carolina. Additional hot spots are located in the midwest (Minnesota and Wisconsin) and in the west (California to Washington). Cases also occur in Europe, Asia, and Australia.

Question. How many Army personnel are infected and is this a significant number?

Answer. The Army made Lyme disease a reportable disease in June 1987. Since that time, 114 cases (37 in 1987 and 77 in 1988) have been diagnosed and reported to our office by Army medical treatment facilities. Primarily these cases were acquired in New Jersey (42 cases) and Wisconsin (32 cases). However, our reports indicate that these infections were acquired from as many as 17 states and one from West Germany. The number of diagnosed active duty Army Lyme disease cases (26) is relatively small. However, because this disease is rather difficult to diagnose, and in many incidences it may be thought to be several other less significant diseases, the actual number of cases is probably 5 to 10 times the number reported.

Question. What is the Army doing to combat this disease?

Answer. The Army has a multifaceted program to combat the disease. This includes environmental surveillance for the ticks that transmit the disease and health education of health care professionals, soldiers, and family members. Training emphasizes proper wear of the uniform and outdoor clothing, use of clothing and personal repellents and checking the body after potential tick exposure. Cooperative Lyme disease efforts are underway with various civilian agencies and health departments. Medical research initiatives for Lyme disease are currently being explored.

Question. Are the other Services experiencing a significant number of infected personnel?

Answer. It is unclear as to the numbers of infected personnel they are seeing in their medical treatment facilities. However, based on discussions with our sister Services, it appears that the Navy and Marine Corps experience a greater impact than the Air Force. The estimated numbers of cases they have seen as somewhat less than those seen by the Army.

ACQUIRED IMMUNE DEFICIENCY SYNDROME (AIDS)

Question. The military tests all those entering the force and all active duty personnel, on a scheduled basis, for the presence of HIV infection. What is your current positive rate among recruits and how does it compare with the civilian sector?

Answer. On a cumulative basis, about 1.5 of each 1,000 recruit applicants test positive for the human immunodeficiency virus (HIV) antibody. There are no directly measured comparable rates available in the civilian sector. Current Centers for Disease Control estimates are that between 1.0 million and 1.5 million people in the U.S. are infected with HIV. If this is a true estimate, and taking the U.S. population to be 245 million, then a comparable computed rate would fall between 4 to 6 infected people per 1,000 population. Further study is necessary to establish the true rate among the general population.

Question. What is your current positive rate among active duty and how does it compare with the civilian sector?

Answer. There are presently about 600 HIV infected soldiers on active duty, out of a total Army strength of about 770,000. That equates to a prevalence rate of about 0.8 HIV infected soldiers per 1,000 soldiers on active duty. Based on incidence calculations, we anticipate that between 500 and 600 new infections will occur annually, most of whom will be in the early stages of HIV infection. Again, there are no comparable testing statistics in the civilian sector.

Question. A new strain of the HIV (AIDS) virus has recently been discovered and is called the HTLV-IV virus. Are you testing for this new strain of AIDS virus?

Answer. In fact, there are three other distinct retroviruses related to HIV (which was formerly called HTLV-III). They are HTLV-I, -II, and -IV. There is also a second strain of HIV, called HIV-2, which has only recently been accepted as a distinct variation. HTLV-I is presently considered a potential health threat in the U.S., because of its association with T-cell leukemia/lymphoma and other chronic neurological diseases. Recently, the Department of Defense, joining with other Federal and private agencies, required testing for HTLV-I of all donated blood. The Army expects to have that testing capability available in all locations no later than 1 April 1989.

Question. Is the test for this new strain in addition to the tests currently performed or will it replace the current testing mode?

Answer. Testing for HTLV-I, while technologically similar to that for HIV, is a different, additional test procedure.

Question. Is the test for this new strain more or less expensive than the former test? What is the average cost per test?

Answer. The test for HTLV-I is more expensive than that for HIV. The Army expects to test about 100,000 blood donors per year for HTLV-I, at an anticipated screening cost of between $2 and $3 for each test. Confirmation testing for HTLV-I for all uniformed service facilities DOD-wide will be performed at Walter Reed Army Institute of Research. Cost of confirmation testing is expected to be between $100 and $125 per specimen. The difference in cost is due to many fewer HTLV-I screening tests being done than for HIV, and more complex confirmation testing requirements.

Question. A current method of treating various symptoms of AIDS is the use of the drug AZT. Are the Services prescribed AZT?

Answer. Yes, all the Services are using AZT, when indicated.

Question. Are the military pharmacies carrying AZT?

Answer. Yes, at least in the Army. However, AZT use is controlled tightly and expenditures monitored more closely than other drugs. It is available through any treatment facility, but it is primarily controlled through the medical center when a given HIV-infected patient may be regularly seen and evaluated.

Question. What is the cost of AZT and what is its effect on the medical (especially pharmacy) budget?

Answer. AZT currently costs between $6000 and $7000 per year per patient, and, once begun, the AZT therapy must continue indefinitely. In the Army, the majority of HIV-infected patients reside in the contiguous 48 states, and care they receive comes from Health Services Command facilities. In fiscal year 1988, the first year AZT was approved for general use, HSC spent over $800,000 on AZT. For fiscal year 1989 to date, $790,000 has been expended, and the total is expected to be around $1.1 million. For fiscal year 1990, the annual expenditure is anticipated to be around $3.5 million. The increase are due to an increasing number of patients who fall under current criteria for use, as well as the anticipated revision of those criteria to call for use of AZT earlier in the course of the disease. In addition, other promising drugs must be made available as well. To date, AIDS expenditures have been largely financed through line item appropriations. In fiscal year 1988, AZT accounted for less than 5% of the AIDS funds allotted for HSC for direct medical care. In fiscal year 1989, that percentage is expected to increase to about 8%, then rise dramatically to over 20% in fiscal year 1990.

Question. What is the current and the fiscal year 1990 level of funding for AIDS testing, treatment and research?

Answer. For fiscal year 1989, the total funding available for testing and treatment is $24.9 million. Of that amount, nearly $10 million will be spent for testing of active Army and reserve forces. Also, for fiscal year 1989, the President's Budget provided an additional $25 million for implementation of the Occupational Safety and Health Administration's initiative on prevention of transmission of blood-borne diseases in the workplace. AIDS research was funded at $27.5 million for fiscal year 1989, but the entire amount was provided by congressional plus-ups. At present there is no funding projected for AIDS research in any future year, including fiscal year 1990.

For fiscal year 1990, the total funding available for testing and treatment is less than that in fiscal year 1989, at $24.1 million. Testing costs will remain essentially the same, at about $10 million. It is anticipated that an additional $25 million will be provided in fiscal year 1990 for further implementation of the OSHA rules.

Implicit in the discussion of AZT and overall funding is the question of whether the Army Medical Department has adequate resources to combat this disease. The answer is no. Additional funds and personnel are required in both the direct medical care and research arenas.

INFECTIOUS DISEASES

Question. There is a great concern in the medical community over the spread of Hepatitis B and other infectious diseases. Some researchers believe that it may be possible that military men and women, returning from overseas locations may be carrying the strains of infectious diseases back into the United States. Has the Army as the leader in infectious disease research, noticed an increase in the number of Hepatitis B cases?

Answer. No. The number of reported cases of Hepatitis B has decreased over the last several years. This has been due in part to a much more aggressive effort at hepatitis prevention through education and immunization.

Question. Is the concern over the possiblility of military personnel, infected with Hepatitis B, who return to the United States from overseas locations, may be getting back into the country untested?

Answer. There has always been concern about any soldier contracting a desease such as Hepatitis B and becoming a carrier of infection. Since for every case of clinically apparent disease, there are at least five to ten cases of inapparent infection presenting with few symptoms, there is a need for continued education to prevent acquisition of infection. Effective preventive measures, such as immunization of persons at risk of contracting infection, should be implemented. The Army has, as its long-range goal, the immunization of the entire force against this preventable disease.

Question. Does the Army and/or the other Services have a program to test military personnel and their families for Hepatitis B and other infectious diseases at periodic times and especially before their return to the United States from overseas assignments?

Answer. Military personnel and civilians are not routinely tested on return to the United States. Testing is not a cost-effective and practical way of approaching this issue. It makes much more sense to immunize all persons considered to be at risk. In the Republic of Korea, the Army has taken this approach and implemented a policy of routinely administering Hepatitis B vaccine to all soldiers assigned to Korea. The incidence of clinically apparent Hepatitis B has been drastically reduced as a result. In fact, to date, no cases of Hepatitis B have occurred in soldiers who have completed the three-shot series since this policy was implemented in October 1985. The Army will continue in its efforts to immunize the entire Army, and our next step will be to imunize the entire Army Medical Department. This program will commence this summer. We need the support of Congress in our effort to accomplish this goal, and we need continued efforts to reduce the cost of the Hepatitis B vaccine.

Question. What it is the treatment program for patients infected with Hepatitis B and what is the current patient load?

Answer. Patients with acute Hepatitis B are provided supportive care. There is no drug therapy that will cure hepatitis, and recovery is based on individual responses. Unfortunately, 6–10% of patients with Hepatitis B become carriers of the virus , and at least 25% of the chronic carriers develop chronic active hapatitis and cirrhosis. Hepatitis B virus also causes primary liver cancer. Our best estimate is that the Army is seeing about 150 to 200 new cases of clinically apparent hepatitis B infections annually.

Question. Please provide the fiscal year 1989 and fiscal year 1990 budget for Hepatitis B research, testing, and treatment.

Answer. The Army is not dedicating a large amount of its budget specifically to Hepatitis B research at this time. We are, however, involved in cooperative efforts with other agencies, to include university centers. Approximately $250,000 for fiscal year 1989 and for fiscal year 1990 is spent on Hepatitis B research. Expenditures are about $3 million per year for testing and $1 million per year for treatment for fiscal year 1989 and 1990. Currently, the Army does not need more money for Hepatitis B research, testing, and treatment. The Army plans a phased Hepatitis B immunization program. Within currently budgeted resources, we will immunize the AMEDD. As additional funds become available, the second phase of the program will be to immunize the rest of the active duty force, followed by the reserves and other civilian beneficiaries. The current Army budget does not include research dollars to fund research in the development of an effective Hepatitis A vaccine and in the diagnosis and prevention of non-A non-B hepatitis, a form of viral hepatitis transmitted enterically like Hepatitis A. Currently, non-A and non-B hepatitis is the biggest hepatitis threat to our forces since immune globulin (gamma globulin) does not protect against this form of hepatitis.

[Clerk's note.—End of questions submitted for the record.]

TUESDAY, MARCH 21, 1989.

OPERATION AND MAINTENANCE—OVERVIEW

WITNESS

JOHN FLINN, DIRECTOR OF OPERATION AND MAINTENANCE. OFFICE OF THE DEFENSE COMPTROLLER

INTRODUCTION

Mr. DICKS. This morning we begin the committee's review of the fiscal year 1990 Department of Defense Operations and Maintenance accounts.

The witness this morning is Mr. John Flinn, the Director of Operation and Maintenance, with the Office of the Defense Comptroller.

We welcome you before the committee and ask that you provide us with a brief statement.

Mr. Flinn, your prepared testimony will appear in the record. Please proceed.

SUMMARY STATEMENT OF MR. FLINN

Mr. FLINN. Good morning, sir.

I have a prepared statement which I will submit for the record.

The budget at the 1990 level is $91.8 billion, representing approximately a $4.9 billion increase over 1989.

This includes $2.2 billion in real growth or 2-1/2 percent, and the remaining amount, some $2.7 billion, provides for price increases.

As the Services appear in subsequent hearings, you will see that the bulk of the program growth is in the direct readiness and support areas. The budget for the most part maintains the training levels that we have achieved in prior years.

The 1991 request of $95.5 billion provides an increase of $3.7 billion over the 1990 level and provides for approximately $1 billion in program growth, or approximately one percent.

The budget also includes funds for the civilian pay raise of two and three percent in fiscal year 1990 and 1991 respectively.

The inflation rate reflected in the budget is 3.4 percent for fiscal year 1990 and three percent in fiscal year 1991.

The fuel prices reflected in the budget for fiscal year 1990 reflect an approximate ten percent decrease below 1989 costs and the 1991 prices are about five percent higher than we are projecting for fiscal year 1990.

In terms of foreign currency rates reflected in the budget, we have priced 1990 and 1991 based on rates prevailing at the end of November 1988 as we finalized the Defense budget.

This required adding approximately $867 million into fiscal year 1990.

While foreign currency rates have become more favorable in the last two months, we have a shortfall in 1989. The budget reflects a $580 million transfer in fiscal year 1989 which will be forwarded to the Committee.

The budget also reflects an approximately $300 million transfer in 1989 to cover the additional 2.1 percent civilian pay raise that was approved in 1989.

The assets to cover these reprogrammings are coming from assets generated in the stock fund because of favorable fuel prices in fiscal year 1988 and somewhat in fiscal year 1989.

We have a request for $500 million each year in 1990 and 1991 for the new DOD base closure account.

This account will finance the cost of advanced planning, design and construction of replacement facilities and other costs associated with closure of activities.

The budget also reflects, for the first time, a separate appropriation for the Office of the Inspector General. This stems from statutory direction included in the Inspector General Act amendments of 1988.

Mr. Chairman, that completes my summary and I am ready to answer any questions that you may have.

[The statement of Mr. Flinn follows:]

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RELEASED BY THE HOUSE APPROPRIATIONS COMMITTEE

STATEMENT OF JOHN A. FLINN
DIRECTOR OF OPERATIONS
OFFICE OF THE DEPARTMENT OF DEFENSE COMPTROLLER

BEFORE THE HOUSE APPROPRIATIONS COMMITTEE
SUBCOMMITTEE ON DEFENSE

March 21, 1989

Mr. Chairman and members of the Committee, I appreciate this opportunity to appear before you to discuss the FY 1990 and FY 1991 budget requests for the Operation and Maintenance accounts.

I would like to begin by discussing some of the more significant assumptions which are reflected throughout the O&M title.

For FY 1990 the O&M budget request at the title level is $91.8 billion which reflects an increase of $4.9 billion in total obligational authority over the FY 1989 funding. Of this amount, approximately $2.2 billion represents real growth of 2.5% and the remaining $2.7 billion provides for price increases. As you will see in your hearings with the Services, the program growth falls in both the direct readiness and support areas and for the most part will maintain the training levels of the operating forces planned in FY 1989. For FY 1991 the request is $95.5 billion which provides an increase of $3.7 billion over the FY 1990 level comprised of $1.0 billion for program growth (1.0%) and $2.7 billion for price increases.

The price growth amounts include $.5 billion in FY 1990 and $.9 billion in FY 1991 for civilian pay raises of 2% and 3%, respectively, to be effective on January 1st of each year. The FY 1991 civilian pay raise estimate also includes the annualization effect of the FY 1990 pay raise. These pay raise amounts are included in the individual O&M appropriations consistent with OMB guidance, which is an action favored by the Department because it provides funding sooner than if appropriated in a supplemental. This is highly advantageous in executing the DoD program.

The O&M budgets assume an inflation rate of 3.4% and 3.0% in FY 1990 and FY 1991, respectively. We use these rates whenever we do not have specifically developed rates, such as for stock and industrial fund purchases, fuel, etc. These rates are also consistent with OMB guidance.

Stock fund fuel prices are priced at $23.56 per barrel in FY 1990 and $24.83 per barrel in FY 1991. The FY 1990 cost is approximately 10% below the FY 1989 cost of $26.46 per barrel while the FY 1991 cost is estimated to rise about 5% over that in FY 1990.

Nonfuel stock fund and industrial fund purchases also reflect individual rates which are set for each commodity and activity group. These rates vary according to the circumstances of each individual commodity and activity group. However, in general the stock fund rates are higher in FY 1990 and lower in FY 1991 in comparison to the previous year while industrial fund rates increase in both years.

In terms of foreign currency, we have priced the FY 1990 and FY 1991 estimates at the rates prevailing at the end of November 1988. This required the addition of $867.6 million in FY 1990 which represents about a third of the $2.7 billion price growth amount. This action recognizes that the rates have become less favorable than those budgeted in FY 1989. For example, the Deutsch Mark is pegged at 2.06:$1 in FY 1989 and 1.75:$1 for FY 1990/FY 1991.

While the foreign currency rates have become more favorable during the last two months in relation to those budgeted in FY 1989, the Department is still experiencing a shortfall in the FY 1989 program. At the time the FY 1990/FY 1991 budget was formulated, the shortage was estimated at $.9 billion. Normally, this shortage would be financed by transfers from the Foreign Currency Fluctuations account; however, the balance in this account at the end of FY 1988 was only $231 million and not sufficient to solve the problem. Consequently, the FY 1990 budget anticipates a reprograming of $580 million from the stock fund into the O&M accounts to resolve this situation.

The reprograming action from the stock fund is possible due to favorable fuel prices, but it does not solve the long-term problem of having insufficient balances in the Foreign Currency Fluctuations account. To correct this, the Department has submitted a language request to permit transfers of unobligated balances from the expired Procurement accounts to the Foreign

Currency account, and we solicit the Committee's approval of this proposal.

While on the subject of FY 1989 financing, the Committee should also be apprised that we will submit a reprograming action approximating $300 million to finance the 2.1% civilian pay raise amount in FY 1989 that was not previously budgeted or appropriated. This will finance the remainder of the January 1, 1989, civilian pay raise of 4.1%. The source of funds for this reprograming comes from inflation saving in all the Department's appropriations resulting from a change in OMB's economic assumptions.

The budget presentation also reflects some changes in the O&M account structure. The most significant is the addition to the O&M title of the DoD Base Closure account budgeted at $500 million each year in FY 1990 and FY 1991. These funds will enable the Department to conduct advance planning and design, acquire land, construct replacement facilities, and perform other activities necessary to transfer functions affected by the closure/realignment actions.

In addition to this, the title reflects the establishment of a separate appropriation for the Office of the Inspector General. The requirement to establish this separate account stems from the statutory direction of the Inspector General Act Amendments of 1988, Public Law 100-504. Funding for the IG was previously included separately in the O&M and Procurement, Defense Agencies Appropriations, and the new account will provide for both O&M and Procurement requirements.

Mr. Chairman and members of the Committee, this completes my statement. I will be happy to answer any questions you may have.

O&M AND GRAMM-RUDMAN-HOLLINGS

Mr. DICKS. If the Federal deficit is greater than projected, DOD will experience a sequestration of funds in order to bring spending in line.

If the deficit is as high as $146.2 billion, DOD could expect as great as a 19.3 percent across-the-board reduction, if military personnel accounts are exempted from sequestration, or a 11.8 percent reduction if the military personnel accounts are included in the sequestration.

We all know that this kind of reduction for O&M would be devastating. What, in your opinion, would be the effect of a 19.3 percent, $17.3 billion reduction in O&M budget authority?

Mr. FLINN. I agree that for the Department to accommodate that kind of a reduction in O&M, it would be devastating. It would have significant negative impact in our ability to maintain training levels in flying hour, ship steaming and land forces programs. Logistic support would be severely reduced and I am sure we would have severe reductions in civilian personnel levels.

But none of that has been worked out.

We are not working on a plan to accommodate a $17.3 billion reduction in O&M.

Mr. DICKS. Based on this result, do you believe that the military personnel accounts should share in the sequestration to lessen the impact on the O&M accounts?

Mr. FLINN. That is a decision that is going to have to be made by the Secretary and the President.

I really can't comment on that.

Mr. DICKS. What would be the impact on the military personnel accounts if a 11.8 percent, $9.4 billion reduction in budget authority was applied to the current services budget?

Mr. FLINN. If the Department had to take a reduction of that nature, it would more than likely reduce active strength approximately 25 percent.

It would require some early releases and involuntary separations.

Mr. DICKS. Twenty-five percent across the board?

Mr. FLINN. That is right.

Mr. DICKS. Twenty-five percent of the Army, the Navy, the Air Force——

Mr. FLINN. The total DOD request in terms of end strength by a 25 percent reduction.

Mr. DICKS. To accommodate a $9.4 billion Military Personnel reduction?

Mr. FLINN. Yes, sir.

Mr. DICKS. Would an O&M budget, which has been reduced by $17.3 billion, be capable of adequately supporting the current force level?

Mr. FLINN. No, sir. In my opinion, it would not be.

FISCAL YEAR 1990 O&M REDUCTIONS

Mr. DICKS. The fiscal year 1990 budget request for O&M is $91.2 billion, 31 percent of the total fiscal year 1990 budget request.

This is almost $6 billion, approximately 7 percent, over the fiscal year 1989 enacted level. A growth of 7 percent represents an approximate real growth of 3.4 percent, with the remainder slated for inflation.

The new Administration has recently proposed no real growth in the Defense budget. For O&M, this will be a reduction of approximately $3.2 billion.

What will be the effect of this policy on O&M? Will readiness levels be reduced?

Mr. FLINN. Yes, sir. Readiness levels would be reduced. However, the impact on O&M has not been totally finalized. I cannot comment today as to what the specific effect will be on the O&M account.

The Department is currently going through a review.

Mr. DICKS. What changes have been made in the O&M funding level based on the no real growth budget proposed by the new Administration? Have you determined how you will apply the reductions?

When you do get your answer, we would like an answer for the record.

Mr. FLINN. Yes, sir.

[The information follows:]

At the time of preparing this answer, the Department has not completed making the adjustments necessary to reduce the DoD budget by $6.3 billion. Consequently, all the changes to be made in the O&M accounts have not been determined. The changes that have been made to date indicate that readiness training will not be affected. When the review is completed, the Department will provide full details of the adjustments made in the O&M accounts to the Committee.

Mr. DICKS. Has the Department considered reductions to the size of the force as a way to meet the proposed reductions?

Mr. FLINN. We have not completed the review and I really can't say whether we are going to propose force level reductions or not.

Mr. DICKS. What kind of O&M "tail" is experienced with a reduction in military personnel?

Mr. FLINN. We do not build the budget in terms of direct costs, and a support tail.

Any reductions that would be taken in military personnel incident to force reductions would include a reduction in support areas in O&M.

Mr. DICKS. Is there any formula that you use?

Mr. FLINN. No, sir. I do not have a formula.

Mr. DICKS. For the record, please provide the percentage of O&M that is considered the "tail" and could be reduced for each reduction of 1,000 military personnel.

[The information follows:]

There is not a standard percentage of O&M that could be adjusted in conjunction with changes in military manpower. The O&M impact of force structure actions varies by Military Department and by the assigned duties and locations of the forces affected.

O&M AND THE READINESS FACTOR

Mr. DICKS. O&M is often called the readiness account due to the linkage between the items funded with O&M, training, flying hours, depot maintenance, et cetera, and the ability of the services to meet their readiness goals.

Since 1980, O&M has supported small increases in flying hours, training, and has significantly contributed to the ability of the services to meet mission-capable rates.

However, this has been done when O&M, as a percentage of the defense budget, has decreased from 32 percent in 1980 to 23 percent in 1988.

What percentage of the fiscal year 1989 defense budget is dedicated to O&M and how does it compare in constant fiscal year 1989 dollars with fiscal year 1980?

Mr. FLINN. Sir, it is approximately the same. Thirty percent in 1989 is the share of the O&M budget in constant dollars and in 1980, it was 30.2 percent in both time periods.

Mr. DICKS. Given the decrease in the level of O&M support and the increase in readiness-related programs, certain programs must be experiencing shortfalls.

Which programs are experiencing funding shortfalls?

Mr. FLINN. The budget reflects considerable growth in backlogs for both real property and depot maintenance.

Those are the two primary areas where you will see reductions.

Mr. DICKS. Do we know where those backlogs in real property and depot maintenance are?

Mr. FLINN. Yes, sir.

That is reflected in the overview book, the O&M overview book.

Mr. DICKS. Does the fiscal year 1990 budget fully fund depot maintenance and real property maintenance requirements? Obviously, the answer is no.

Mr. FLINN. No, they do not.

Mr. DICKS. How short are they?

Mr. FLINN. Sir, the backlog in fiscal year 1990 for depot maintenance is approximately $1.5 billion and the backlog in 1991 is $1.6 billion.

The backlog in fiscal year 1989 is $1 billion in round numbers, for depot maintenance.

Mr. DICKS. What we are seeing here, as I view this, is we are seeing a very steady increase in the backlog of both depot and real property maintenance.

Mr. FLINN. Yes, sir.

Mr. DICKS. What are we talking about there? Are we talking about facilities, buildings, not painting them or keeping them up?

Mr. FLINN. In real property, we are talking about not fixing roads, not putting on new roofs, just patching leaks, not painting facilities, perhaps not replacing drainage systems and just making emergency repairs.

In the depot maintenance area, we are talking about end items; deferring the maintenance of major weapon system end items, fixing repair parts and components necessary to keep the operating forces up, but minimizing the impact in order to maintain the readiness level.

Mr. DICKS. Would it be fair to say that with the big cuts we have seen in military construction that that has an effect on this O&M account for depot maintenance and facilities?

Mr. FLINN. The effect would be in the facility area, not on depot maintenance.

If we do not replace facilities, we experience greater cost on the O&M side in the major repairs area and maintaining the facilities day to day.

Mr. **DICKS**. So they are all interrelated?

Mr. **FLINN**. Yes, sir.

Mr. **DICKS**. So if things are done in the Military Construction area, it is going to have an effect on O&M?

Mr. **FLINN**. Yes. It will have an effect.

O&M REAL GROWTH AND THE FUTURE

Mr. **DICKS**. A recent CBO report stated that O&M and military personnel costs, also known as operation and support—O&S—costs, must experience at least a 2.3 percent real growth a year to support the new equipment entering the force.

Additionally, CBO stated that there are three general approaches to hold down these costs: reduction of military forces, efficiencies, and acceptance of readiness reductions and risks.

Are you familiar with this CBO report?

Mr. **FLINN**. Just briefly, sir.

Mr. **DICKS**. If so, what are your thoughts on the approaches developed by the CBO to determine O&S requirements?

Mr. **FLINN**. I will have to provide you something on that one. I do not have any data on the CBO report with me.

[The information follows:]

The CBO report provides a useful presentation of macro estimating approaches for O&S requirements, and I agree with the report's conclusions that it will be difficult to reduce O&S funding below current levels (in real terms). Indeed, to accommodate growth in priority Defense programs, holding funding to current levels is already requiring force structure reductions, the deferral of facility maintenance and other programs, and increased emphasis on efficiency. It is important to emphasize, however, that macro approaches should not be used to establish funding levels for a specific fiscal year. Each year's requirements are driven by numerous factors that are held constant or are not considered in a macro approach.

Mr. **DICKS**. Since you don't seem to know much about it, let me refer you to it. It is the Operations and Support Costs for the Department of Defense, Congressional Budget Office, July of 1988.

Let's step back and talk about it generally.

Has there been an increase in operation and support costs because of the introduction of modern weapons into the inventory?

Mr. **FLINN**. Yes, sir. O&M costs do go up as we introduce more complex weapon systems.

To a certain degree, we have been trying to hold that down with our black box replacement process. Rather than repair, we are replacing with black boxes. We have not been totally successful with that concept.

As we upgrade our weapon systems, you do see O&M costs increasing.

Mr. **DICKS**. In light of the new Administration's policy, at least for this year, of no real growth in defense spending, what is the future for O&M?

Mr. **FLINN**. O&M growth in terms of the new Administration policy is one percent in 1991 and two percent in 1992.

What the effect will be on specific programs, I do not know at this point in time.

Mr. **Dicks**. If CBO says that we require 2.3 percent real growth a year to support the new equipment entering the force, aren't you going to have to cut back in other areas to make room for that if that is accurate?

Mr. **Flinn**. Yes, sir.

We do try to reflect efficiencies in the budget as a result of audit reports in the areas of logistic support. I am not going to say that we can totally offset that amount of growth, but we do try to reflect efficiencies in the budget in order to accommodate cost increases.

Mr. **Dicks**. Are you going to be risking readiness in order to do that?

Mr. **Flinn**. No, sir. Readiness is the first priority in the budget and readiness will be maintained.

Mr. **Dicks**. So you disagree with Mr. Luttwak and others who have suggested that we lower the tempo and reduce training in order to finance new procurement?

Mr. **Flinn**. Well, personally, I have to speak for myself right now. As I said, we have not finished the review on the revision to the budget, but one of the primary goals in the Department is to maintain the readiness improvement that we have achieved over prior years.

Mr. **Dicks**. In addition to reducing military forces, would the Department consider a reduction in the civilian work force?

Mr. **Flinn**. Only incident to a force structure change. If the Department reduces force structure then there would be civilian personnel reductions.

Mr. **Dicks**. Mr. McDade?

DEPOT MAINTENANCE AND SUPPLY OPERATIONS

Mr. **McDade**. Thank you, Mr. Chairman.

Let's talk about depot maintenance and supply operations.

The Committee's Surveys and Investigation staff has been looking into the relationship of the funding between the supply side and the depot maintenance side of the program 7 funding profile.

Based on preliminary results of the S&I staff work, it appears that large sums of depot maintenance funding have been reprogrammed to supply operations.

Since 1985, the Air Force has reduced depot maintenance funding by $754 million and increased supply operations funding by $761 million.

Since 1985, the Army has reduced depot maintenance funding by $706 million and has increased supply operations by $751 million.

In other words, the money Congress has added over the years for depot maintenance has not been used for depot maintenance at all, but for supply operations.

In fiscal year 1989, this committee recommended that there should be a "fence" placed around depot maintenance and supply, separating them because we were concerned about this reprogramming or "migration" of funds.

The Department opposed our recommendation, stressing its needs for flexibility and ultimately the "fence" included only depot funding.

Based on the data provided by the S&I review, does the Department acknowledge that funding has "migrated" from depot maintenance to supply operations?

Mr. FLINN. Sir, there has been a certain level of migration, but there is a very close relationship between supply functions and support of depot operations. There has been a movement of money into supply as deficiencies have been recognized in order to maintain a balance between the two programs.

Mr. MCDADE. There is no justification for taking money appropriated for depot maintenance and migrating it into supply.

Why are the supply accounts underfunded?

Mr. FLINN. Materiel requirements change resulting in funding realignments.

I am not familiar with the S&I report and in terms of the magnitude of the dollars over time that have moved, I can't comment on those numbers.

Mr. MCDADE. It is about $1.4 billion. It appears that you think you have a "cash cow" in depot maintenance and you are moving money into supply and using it to get well there and maybe other areas. But the depot maintenance backlog continues and grows.

So you don't use the dollars for which it was appropriated, i.e., the backlog, you migrate it to another account in huge dollar sums and use money for nonappropriated reasons, different reasons, and don't get rid of the backlog.

Let me ask you, based upon the serious backlog in depot maintenance, do you agree that there are serious backlogs?

Mr. FLINN. Yes, sir.

Mr. MCDADE. Why has the Department allowed depot maintenance funding to be reprogrammed for other purposes?

Mr. FLINN. The Department has protected depot maintenance over the years. It is considered a direct readiness-related program.

There are, however, unfinanced high priority requirements that materialize during the year and certain adjustments have to be made.

Mr. MCDADE. $1.4 billion worth?

Mr. FLINN. I can't comment on that $1.4 billion. That is a very large number.

Mr. MCDADE. You bet it is. We realize that depot maintenance is part of readiness, that is why we watch it so closely, but we don't want it to migrate to another area and have the depot maintenance backlog remain the same.

In fiscal year 1988, the Department informed the Committee that it needed to reprogram depot maintenance funds to cover O&M shortfalls. The shortfalls were caused by the lack of enough funds in the stock fund to execute the congressionally directed $1 billion refund to O&M.

How is it that the Department said there was not enough money in the stock funds to execute the fiscal year 1988 refund, but in fiscal year 1989, there is an extra $1 billion which DOD is proposing to use on O&M shortfalls? You found a billion dollars in a year somewhere.

Mr. FLINN. Yes, sir, the current asset is materializing as a result of fuel prices.

The asset did not appear to be available and we can't afford to drive stock fund cash levels to a negative position.

Mr. McDade. Our understanding is that in fiscal year 1988 you did go in and find a $1.1 billion out of the stock fund for the O&M account. You did that in 1988. That is our information. Do you deny that?

Mr. Flinn. No, sir. I thought you were referring to the $800 million that we are talking about in 1989.

Mr. McDade. Well, the problem is that there was—originally the Department informed us there was no way to get the additional dollars, but you went back in 1988 and found $1.1 billion.

Mr. Flinn. Yes, sir.

Mr. McDade. Can you describe the source of that $1.1 billion?

Mr. Flinn. I can't comment on the source of the stock fund. I do not have anyone with me today from the stock fund area.

Mr. McDade. It is like the old Dirksen line, "A billion here, a billion there," and we are soon into big money. We are talking about $1.4 billion being transferred out of appropriated dollars into supply. We are talking about a little over $2 billion that is sliding around, and migrating. Nevertheless, when you look at what you are doing from this side of the table, be careful. We are into big money.

Mr. Flinn. Yes, sir.

Mr. McDade. Please provide for the record the fiscal year 1989 budget request, appropriation, and current estimate and the fiscal year 1990 budget request for depot maintenance, and note which subcategories fall under depot maintenance.

Additionally, please provide the fiscal year 1989 budget request, appropriation, and current estimate, and the fiscal year 1990 budget request for supply operations, and note which subcategories fall under supply operations.

DEPOT MAINTENANCE

[In millions of dollars]

	Fiscal year 1989—			Fiscal year 1990 budget request [1]
	Budget request	Appropriation	Current estimate	
Army	1,709.2	1,709.2	1,709.2	1,737.9
Navy	4,407.1	4,658.6	4,669.8	5,295.4
Marine Corps	79.1	80.0	83.1	82.2
Air Force	2,862.6	2,914.9	2,914.9	3,007.5
Army Reserve	7.9	7.9	8.8	8.8
Navy Reserve	203.6	201.5	208.6	205.8
Marine Corps Reserve	2.0	2.0	2.0	1.9
Air Force Reserve	146.9	149.0	164.5	159.2
Army National Guard	54.0	54.0	60.0	64.5
Air National Guard	315.5	317.7	317.5	319.7
Total	9,787.9	10,094.8	10,138.4	10,282.9

[1] Original request.

Note.—The 4 subcategories of depot maintenance are aircraft, ships, combat vehicles, and other.

SUPPLY OPERATIONS

[In millions of dollars]

	Fiscal year—			
	1989 budget request	1989 appropriation	1989 current estimate	1990 budget request
Army	1,152.7	1,244.2	1,201.8	1,294.1
Navy	980.1	952.0	978.7	1,078.5
Marine Corps	109.9	109.8	115.2	119.8
Air Force	1,233.4	1,225.8	1,208.0	1,256.6
Defense Logistics Agency	509.7	494.8	528.7	505.4
Total	3,985.8	4,026.6	4,032.4	4,254.4

The subcategories of supply operations are as follows:

Army: Supply depot operations; supply management operations; central procurement operations.

Navy: Supply depots; supply depots at naval shipyards; procurement operations; inventory control operations; receipt, segregation, storage, and issue of ammunition.

Marine Corps: Supply depot operations; inventory control point; field logistics support.

Air Force: Supply depot operations; inventory control points; procurement operations.

Defense logistics agency: Supply depot operations; inventory control points (contracting); inventory control points (material management and technical support).

BASE CLOSURE/REALIGNMENT

Mr. McDade. The fiscal year 1990 budget request included a $500 million base closure account. The request identified this account with the O&M accounts.

However, since the 1990 requirements are predominantly military construction related, the Committee moved the base closure account under the jurisdiction of the Military Construction Subcommittee.

Testimony before the Military Construction Subcommittee by Assistant Secretary of Defense, Mr. Robert Stone, indicates that in addition to the base closure account construction requirements, an additional $301 million is needed to implement the base closing actions and realignments. The implication is that the $301 million represents operation and maintenance costs. Does the additional $301 million identified by Mr. Stone represent O&M costs?

Mr. Flinn. Yes, it does, sir. The $500 million that we requested covers both O&M and military construction costs and advance planning.

The total amount that is going to be required and whether the $500 million is sufficient really hasn't been totally resolved at this time. The distribution between O&M and MILCON has not been totally identified at this time.

Mr. **McDade**. So it is $301 million in O&M that you can account for, plus $500 million and up to implement the base closure agreement?

Mr. **Flinn**. No, I wouldn't agree. I am not saying we need $800 million.

Mr. **McDade**. What do you need?

Mr. **Flinn**. At this time, I don't know what the number is that we need.

Mr. **McDade**. Is the $301 million in O&M, is that a firm figure?

Mr. **Flinn**. No, it is not.

Mr. **McDade**. So none of this is firm?

Mr. **Flinn**. No.

Mr. **McDade**. That is the testimony that we got from Secretary Stone.

Mr. **Flinn**. It was based on the Commission's preliminary work. The Commission has now been dissolved.

We have a group that is working with the services to quantify specific requirements. They may well be greater than the $500 million, but I really can't say right now.

The $500 million does not reflect any revenues from anticipated sale of land and facilities. It may well be, in fact, that revenues would increase the value in the account.

All of this has not been totally resolved at this point.

Mr. **McDade**. What is the time frame for pinning the numbers down?

Mr. **Flinn**. Perhaps not until about another 30 days.

Mr. **McDade**. How do you expect to accommodate the $300 million in reprogram costs?

Mr. **Flinn**. If the $500 million is appropriated, we will be spending O&M money from the DOD base closure account.

Mr. **McDade**. The $500 million that Mr. Stone requested was in front of the Military Construction Subcommittee where we agreed they had jurisdiction. So it is not an O&M request. It is MILCON.

Mr. **Flinn**. The way the law has been written, it is available to cover O&M costs. It can cover both O&M and military construction costs.

Mr. **McDade**. Put a justification for that in the record, will you.

Mr. **Flinn**. Yes, sir.

[The information follows:]

The Base Closure and Realignment Act (P.L. 100-526) provides the authority to use the funds in the Base Closure Account for those actions necessary to implement the closures and realignments recommended by the Commission. This includes not only the acquisition of land and the construction of replacement facilities, but also O&M and Military Personnel type activities such as travel and permanent change of station. Additionally, the funds in the Base Closure account may be used for economic adjustment or community assistance and for environmental cleanup.

DEPOT MAINTENANCE

Mr. **McDade**. The fiscal year 1990 budget request for depot maintenance is $10.9 billion, a seven percent increase over the fiscal year 1989 level. The backlog in depot maintenance, however, grows by 50 percent.

How can the funding increase by seven percent and the backlog increase by 50 percent? Do these figures mean that you really need a funding increase of 57 percent to ensure that there is no backlog in depot maintenance?

Mr. FLINN. Sir, the backlog as we present it here is based on requirements known at a point in time.

The budget is in balance. The $10.9 billion request maintains the force level, operating tempo's and will provide the repair parts that we need.

The $1.5 billion backlog is the result of fiscal constraints. If we had all the resources that were possible, we would work down that backlog, but it is just not possible within a fiscally constrained budget.

Mr. McDADE. So you agree that you have a 50 percent increase in the backlog in depot maintenance?

Mr. FLINN. Yes, sir.

Mr. McDADE. Your argument is it is affordability and you state straight out that you are not attempting to fund the backlog.

Mr. FLINN. Not in today's environment.

Mr. McDADE. What is the cause for the ever-changing depot maintenance backlog figures?

For example, the fiscal year 1988 budget estimated a depot maintenance backlog of $452 million; in 1989, this estimate changed to a $1.2 billion backlog; now we are told the actual backlog for fiscal year 1988 was $973 million.

What is happening with this gyration in figures from $400 million to $1.2 billion to roughly a billion dollars?

Mr. FLINN. As the services go through their update of data they identify additional requirements.

Some requirements are deleted but there are additional requirements identified.

It is updated in terms of current pricing and the backlog value increases as a result of a point in time when the survey is made.

Mr. McDADE. Do the services verify the backlog?

Mr. FLINN. Yes, sir.

Mr. McDADE. Is this a contributing factor to the changing backlog figure, the fact that they verify it?

Mr. FLINN. Yes, sir.

As we go through a periodic update, it is verified, recomputed and we get a new value of the backlog.

Mr. McDADE. Give us an example of the 1988 backlog figures.

Mr. FLINN. If there are more aircraft engines that need repair as a result of a greater failure rate of some particular part, you would see a greater need for the repair of components for aircraft engines.

Mr. McDADE. Let me just bring to your attention and you can give us your guidance—for example, using the Air Force account.

The Air Force originally said at the start of the fiscal year 1988 cycle the backlog was $150 million. Then they went back and estimated that it came back in at $819 million. Then the actual figure that was finally submitted to this committee was a $269 million backlog.

The swing went from about a hundred to a billion dollars, back down to about a quarter of a billion dollars, and we find those swings to be inconsistent with reality.

What is going on, Mr. Flinn?

Mr. **Flinn**. I believe the difference may have to do with redefinition of what is included in the backlog.

I don't know what they included in the backlog.

Mr. **McDade**. Did you see those figures before? They are out of your book. It has to catch your eye when you see swings like that, doesn't it?

Mr. **Flinn**. Yes, sir.

Mr. **McDade**. Doesn't it make you want to say, "What is going on?"

That is what happens to us. We say, "What is going on? Why are we getting these wide swings?"

Mr. **Flinn**. Because of those wide swings we are forwarding, at the request of the Committee, a letter certifying the backlog numbers.

I do not believe you will be seeing these varying estimates of backlogs in the future.

Mr. **McDade**. We hope that is true, Mr. Flinn.

Thank you, Mr. Chairman.

[The information follows:]

The breakout of the 1988, 1989, and 1990 backlog by component, including National Guard and Reserve components follows.

DEPOT MAINTENANCE BACKLOG

[Dollars in millions]

	Fiscal year—		
	1988	1989	[1] 1990
Army	447.2	318.6	429.8
Navy	302.3	370.6	623.8
Marine Corps	5.0	14.8	22.4
Air Force	186.5	260.4	364.4
Army National Guard	32.0	20.0	15.0
Navy Reserve	0.0	11.6	28.2
Total	973.0	966.0	1,483.6

[1] Original request.

ENVIRONMENTAL RESTORATION

Mr. **Dicks**. Section 204(a)(3) of the Base Closure and Realignment Act states that environmental restoration requirements, including reducing, removing, and recycling hazardous wastes and removing unsafe buildings and debris, may be funded from the base closure account and from the Defense Environmental Restoration Fund.

What is the estimated amount of environmental restoration funds which will be required to support the closure of bases affected by this Act?

Mr. **Flinn**. I do not have an estimate at this time.

Mr. **Dicks**. When is that going to happen, Mr. Flinn?

Mr. **Flinn**. I am going to have to supply that.

[The information follows:]

Based upon investigatory work underway at this time, the current estimate is that over time at least $500 million will be required for cleaning up sites on the base closure list.

Mr. **Dicks**. What is the time frame? When are you going to know? You have had these records now for several months. You are up here testifying before the Congress. At some point, we need some answers.

Mr. **Flinn**. What is required are on-site reviews of all these facilities to determine what is the level of environmental degradation and what is going to have to be accomplished and pricing that out.

It is going to be some time, sir, before we know.

Mr. **Dicks**. What is the schedule, Mr. Flinn? Do you have a schedule?

Mr. **Flinn**. I will have to provide that. I do not have a schedule with me.

[The information follows:]

All of the activities listed in the Base Closure and Realignment Report are scheduled to have an on-site Preliminary Assessment completed during this fiscal year. The major installations are already past the assessment phase and are well into the investigatory process. The uncertainty with developing precise funding and schedule estimates is that there are many remedial investigations still to be completed, which will indicate the number of sites actually requiring cleanup. Also, in some cases, cleanup standards have not been determined and agreements for remedial action at the installations have not been reached with the regulatory agencies. Investigatory and remedial actions must be accomplished in accordance with applicable environmental laws and regulations which prescribe the procedures to be followed. Accordingly, cleanup actions cannot be precisely defined in advance and therefore schedules and costs are difficult to estimate at our current stage of the process.

Mr. **Dicks**. Of that amount which will be used for environmental restoration, what percent will be funded from the base closure account and what percent will be funded from the Defense Environmental Fund?

Mr. **Flinn**. Environmental costs may be funded from the base closure account or the environmental fund however, the base closure account may be the first choice if base closure timetables are not consistent with priorities of those projects programmed in the environmental fund.

Mr. **Dicks**. You don't plan on using the Defense Environmental Restoration Fund for base closure?

Mr. **Flinn**. Only to the extent resources are not available in the base closure account.

Mr. **Dicks**. How much money is in the Defense Environmental Restoration Fund?

Mr. **Flinn**. The fiscal year 1990 program is $518 million and fiscal year 1991 includes $520 million.

Mr. **Dicks**. Have you been spending this money?

Mr. **Flinn**. Yes, sir.

Sir, the fund is a transfer account and as we go through the year, the funds are transferred to the various military components.

Mr. **Dicks**. Do you know what is going to be done with the money? Are you familiar with what is being done with the money?

Mr. **Flinn**. Yes, sir.

There are specific projects that are approved and funded. They are approved by the Assistant Secretary of Defense for Environmental-Related efforts, and funds are allocated to the service based on his recommendations.

Mr. **Dicks**. Are we still in the assessment phase of this effort or are we actually doing some clean-up at some of the bases around the country?

Mr. **Flinn**. Both.

We are cleaning up and we are still in the assessment phase. We are spending the funds that the Congress appropriates each year for environmental restoration work.

Mr. **Dicks**. Will any environmental restoration requirements be funded from the services' operation and maintenance accounts?

Mr. **Flinn**. There are some O&M funds that the services spend to correct ongoing environmental problems.

Mr. **Dicks**. Mr. Flinn, what is the Defense Department's policy on when each of these appropriations will be utilized to fund these environmental restoration requirements?

Mr. **Flinn**. Relative to the closures, both the DOD base closure account and the environmental restoration fund are available to fund these efforts. However use of the environmental account will be dependent upon the priority of the project and the schedule of the closure action.

STOCK FUNDS

Mr. **Dicks**. Tell me how the stock fund actually works.

Mr. **Flinn**. I don't have anyone with me today to talk about that.

Mr. **Dicks**. You don't know how the stock fund works?

Mr. **Flinn**. We have an array of commodities, material, both fuel and non-fuel that the services buy from a central procurement source namely the stock fund.

Prices in the stock fund are stabilized to the customers. Any price increases which occur during the year of execution is absorbed by the stock fund. The customer pays the stock fund price upon which the budget was formulated. The stock fund operates on a very large revolving fund cash basis.

Mr. **Dicks**. We will put the stock fund questions in the record.

[**Clerk's note**.—Questions submitted for the record and the answers thereto follow:]

Question. Data provided by your office indicates that DoD is planning to transfer a total of $983.3 million from DoD Stock Funds to various O&M accounts.

The purpose is to fund O&M shortfalls and the Stock Fund transfer would be used in the following ways:

	Million
Foreign Currency	$563.1
Reserve Readiness Improvements	[1] 180.0
Coast Guard Reimbursement	60.0
DLA Supply Operations	90.0
Drug Interdiction	90.0
Environmental Restoration	.2
Total	983.3

[1] Congressionally directed.

Are these transfers coming from operating fund balances or appropriated fund balances?

Are funds being taken from war reserve fuel purchases? If so, does DoD plan to replenish the war reserve fuel?

Can DoD accounting systems distinguish between appropriated funding and operating cash?

Can DoD verify that the $983.3 million in transfers will come from operating fund balances and not appropriated fund balances?

Answer. The impression that Stock Fund assets are to be used to satisfy the full transfer requirement is incorrect. The latter two items will be funded from appropriated fund balances—Drug Interdiction from Aircraft Procurement, Navy, 1987/1989, as directed by the Congress, and Environmental Restoration from Other Procurement, Navy, 1986/1988, as a reappropriation of unobligated Environmental Restoration, Defense funds issued to the Navy for an environmental project and excess to requirements. The transfers that are proposed from the Stock Fund are coming from operating stock fund balances, not from appropriated resources for war reserve and inventory augmentation.

DoD Stock Funds are required to distinguish between appropriated funds and operating funds obligations in their accounting systems.

Yes, $893.1 million is coming from stock fund operating cash and the remaining $90.2 million is from available unobligated balances as indicated above.

Question. Is the $563.1 million for Foreign Currency in addition to the amounts currently being held in reserve in various O&M accounts like Depot Maintenance, ostensibly for the same purpose?

Answer. There are no additional funds currently being held in reserve by the Operation and Maintenance appropriations to finance the foreign currency shortfall. If during execution the transfer of $563.1 million from the Defense Stock Fund is inadequate and there are no available assets in the Foreign Currency Fluctuations, Defense appropriation, then the Operation and Maintenance appropriations may have to defer some discretionary programs or reprogram from other assets in order to finance the increased costs associated with the decline in the value of the U.S. dollar.

Question. Is the $60 million for Coast Guard reimbursement to fulfill the requirements of Section 8110 of the FY 1989 DoD Appropriations Act? If so, why is this funding coming from the Navy Stock Fund when the intent of the provision was to have all Services, not just Navy, provide a portion of the funds?

Answer. Yes, the transfer of $60 million is intended to cover the Coast Guard reimbursement as required by section 8110 of the DoD Appropriations Act, 1989. The intention to have all of the Services provide a portion of the funds was not conveyed to the Department in the Appropriations Act or the accompanying Conference Report. Section 8110 of the DoD Appropriations Act, 1989, requires the Secretary during FY 1989 to transfer $60 million to the Coast Guard "from funds made available in this Act" and included appropriation language for the Operation and Maintenance, Navy appropriation to transfer $60 million to the Coast Guard. Consequently, the transfer from the Operation and Maintenance, Navy appropriation to the Coast Guard was completed in perceived compliance with the Act. The transfer from the Navy Stock Fund is proposed to replace the Navy's Operation and Maintenance program funding reduced to accommodate the transfer to the Coast Guard. The Navy Stock Fund asset is excess to maintaining the required cash level standard.

Question. Why are you planning to transfer $90 million from unobligated balances for Drug Interdiction purposes? The Congress directed $90 million for drug interdiction should be transferred from

Aircraft Procurement, Navy, 1987/1989, not the Defense Stock Fund.

Answer. This transfer is in compliance with congressional direction. The $90.0 million has been transferred from available unobligated balances of the Aircraft Procurement, Navy, 1987/1989, appropriation to the FY 1989 Drug Interdiction appropriation.

Question. Is there any accounting system to track the funds once the transfer is made from the Stock Fund? In other words, can DoD track the money to ensure that it is indeed spent on the items and purposes for which it was transferred?

Answer. No, the accounting system does not differentiate between funds originally appropriated and transferred funds. Moreover, transferred funds are not normally fenced within the Operation and Maintenance appropriations in order to provide the field level managers maximum flexibility in executing approved programs. However, analysis of program values can be made to determine that the funds are spent on the items and purposes for which the transfer was accomplished.

Question. Stock Funds are managed on the basis of maintaining an 11-day operating cash corpus.

Has any Service not met this 11-day requirement at the end of the period (fiscal year) for fiscal years 1987-1988?

If so, which Service(s) and what was the average cash position (in number of days)?

Is any Service estimating that it will have less than 11-days of cash at the end of FY 1989?

If so, which Service(s) and what is estimated to be the average cash position (in number of days)?

What would be the effect on the Stock Fund if a 9 day vice 11 day operating cash position was required for the corpus?

What would be the budgetary savings if the Stock Funds were required to maintain only a 9 day operating cash corpus?

Answer. The following table reflects the yearend operating cash position in terms of days by stock fund. The table indicates that despite the 11 day target, most stock funds rarely achieve the planned cash levels. The stock funds that achieve 11 days do so mainly due to special circumstances such as unexpected favorable fuel prices or accruing cash based on making transfers in the subsequent fiscal year.

	End 1987	End 1988	Estimate 1989	Estimate 1990
Stock fund:				
Army	5	1	2	11
Navy	31	24	[1] 17	11
Air Force	2		1	11
Defense SF (Fuel)	22	40	4	11
Defense SF (Nonfuel)		1		11

[1] FY 1990 program assumes $237.2 million cash transfer in FY 1990.

If the stock fund cash target were reduced from 11 to 9 days, then the probability of a cash shortfall and possibility of an antideficiency violation increases. An adequate cash flow is essential to the efficient operation of a stock fund. Declining cash balances will

result in procurement cutbacks that will translate into reduced readiness. Operating on 9 days of cash would save up to $200 million in the FY 1990 customer accounts, but this would be a false economy since it is highly unlikely that the projected stock fund balances would actually accrue. The result of such an action will be smaller, less economic procurements, increased administrative costs, and less stock for issue to the operating forces.

[CLERK'S NOTE.—End of questions submitted for the record.]

INDUSTRIAL FUNDS

Mr. DICKS. In fiscal year 1988, $39.3 million was transferred out of the DOD Industrial Fund and refunded to the O&M accounts to offset O&M reductions.

In fiscal year 1989, a total of $619 million will be transferred from O&M and passed through to the fund to offset losses in the industrial fund.

In fiscal year 1990, DOD is again budgeting a passthrough of $672 million from O&M into the fund to offset losses.

The idea behind the Industrial Fund is to charge customers for the cost of services provided by the Fund. The Fund also maintains a corpus of money to ensure all the bills are paid and not delayed while waiting for customer payment.

Why is DOD budgeting for a passthrough from O&M into the fund to offset losses? Is it not the proper role of the Industrial Fund to increase its rates to offset losses?

Mr. FLINN. Sir, in the Industrial Fund, as well as the Stock Fund, we use a stabilized price concept.

The rates established for fiscal year 1990 will not change during the year of execution. Any losses that the Industrial Fund incurs through the year as a result of execution will be accommodated by the industrial fund.

The estimates you have cited represent operating losses experienced in fiscal year 1988 and projected for fiscal year 1989. We have had to budget in fiscal year 1990 $672 million in order to maintain adequate resource levels in the Industrial Fund.

Mr. DICKS. Shouldn't you be increasing your rates to offset the losses?

Mr. FLINN. Industrial Funds rates are established so as to recover costs projected to be incurred in that fiscal year. We do not distort budget year rates by recovering prior year losses.

This is a change made several years ago.

Mr. DICKS. Is that the way it was designed to work originally, to do it that way?

Mr. FLINN. Sir, this has nothing to do with the way it was designed. It is a matter of budget policy and to minimize rate fluctuations from year to year.

By including a $672 million requirement in fiscal year 1990 rates, I would be distorting fiscal year 1990 costs.

Fiscal year 1990 rates would not represent what it is costing to accomplish work in fiscal year 1990.

About three years ago, we made a decision to not distort prices. This was in response to criticism from GAO and Congressional interest.

It was decided that the Department would budget for these losses as a line item in the O&M appropriation request in order to not distort Industrial Fund unit prices.

Mr. DICKS. What would be the effect on the Industrial Fund if the passthrough did not occur in fiscal year 1990?

Mr. FLINN. If the passthrough did not occur, the Industrial Fund—and it is principally in the Navy account, and largely driven by large operating losses incurred by the Military Sealift Command—aviation depots, and shipyards. It would cause a deficit situation in the Navy industrial fund.

We will not be able to maintain the solvency of that Industrial Fund.

Mr. DICKS. Is being in a deficit a violation of any statute?

Mr. FLINN. Yes, it is. If budgetary resources, which includes cash, go negative it is a violation.

Mr. DICKS. Then why do we do it? You are in a deficit situation now, aren't you?

Mr. FLINN. Not at this point.

In terms of operating cash levels, we are not in a deficit position. If we did not get this cash infusion in 1990 and if our projections materialize, we would be in a violation position in 1990.

Mr. DICKS. For the record, what would be the effect if the fiscal year 1990 passthrough was stretched into fiscal year 1991 and fiscal year 1992; $336 million in fiscal year 1990, $336 million in fiscal year 1991, $638 million in fiscal year 1992?

Answer that for the record.

[The information follows:]

If the FY 1990 passthrough of $672 million did not occur, estimated industrial fund cash for FY 1990 would decrease from $1.0 billion to about $300 million. This level of cash would be inadequate to pay for the more than $500 million of prior year ACP purchases to be received during FY 1990 by DoD industrial fund activities, as well as to pay for other industrial fund cost of operation such as civilian personnel and supply and equipment purchases. If constrained cash levels caused civilian personnel cutbacks or the deferral of materiel purchases, daily industrial fund operations, including depot maintenance, airlift and sealift operations, and ordnance activities could be affected which would degrade near-term readiness.

If half of the $672 million FY 1990 passthrough was stretched into FY 1991 and the FY 1991 passthrough was to be provided in FY 1992, the estimate of FY 1990 industrial fund cash would be reduced to about $650 million and the estimate of FY 1991 cash would be reduced from about $1.0 billion to $400 million. The industrial funds might be able to operate in FY 1990 with $650 million of cash but it could be necessary to transfer cash between Service industrial funds. Such cash levels would require nearly daily cash management of all industrial funds by the Department in order to ensure that sufficient cash would be available for each industrial fund activity to meet daily expenses. Such action would create an administrative burden that would be nearly impossible to manage. Without adjusting the level of financial resources between Service industrial funds, the impact on each Service of cutting its FY 1990 proposed passthrough in half would vary. The impact of proposed passthrough adjustments on FY 1991 industrial fund operations would be about as described above for FY 1990 with estimated total cash at $300 million.

Mr. DICKS. In fiscal year 1991, DOD is again budgeting for a passthrough from O&M into the fund. In this case, the only O&M account affected is O&M, Navy. Why did DOD allow this? Why were the rates not increased to a level in fiscal year 1990 to preclude this action?

Mr. FLINN. As I said previously the rates are to recover costs in the fiscal year concerned. It is up to the Industrial Fund manager to control costs and to try to economize.

The decision to recover the loss over two fiscal years was largely due to the size of the shortfall.

It was too large an amount to recover due to fiscal constraints over one year.

Mr. DICKS. In the case of passthroughs, only the O&M account is affected. If the rates are increased, all customers, including RDT&E and Procurement are affected.

By using passthroughs, is DOD allowing the O&M accounts to fund the total effect of operating losses, when all customers should be sharing equally in the pain?

Mr. FLINN. Sir, we made a decision to localize that one-time cash infusion in the O&M appropriation.

Mr. DICKS. Two times; 1990 and 1991.

Mr. FLINN. Yes, sir. That is right, both 1990 and 1991.

Mr. DICKS. If the fiscal year 1990 passthrough does not occur causing the Industrial Fund to possibly experience operating losses, would DOD be in violation of any existing statutes?

Mr. FLINN. If the operating loss resulted in negative budgetary resources, yes, it would.

REAL PROPERTY MAINTENANCE

Mr. DICKS. Regarding real property maintenance, the fiscal year 1990 budget request includes a $4.8 billion request for real property maintenance funding, a ten percent increase over the fiscal year 1989 funding. Even with this increased level of funding, DOD is still anticipating a $6.8 billion backlog in 1990.

Since 1984, the funding for real property maintenance has increased by 12 percent while the backlog has increased by almost 90 percent. What is the reason for the increasing level of real property maintenance backlogs?

The answer is, you just don't have enough money and that is one area you are deferring; is that correct?

Mr. FLINN. That is right, sir.

Mr. DICKS. What are the long-term and short-term effects of carrying such a large amount of backlog maintenance each year?

Mr. FLINN. The long-term effect is a general degradation and deterioration of the plant account.

You can only let that go on so far. As the services update their project listings each year, those that are in the most dire straits will be financed first.

Mr. DICKS. Do the services verify the backlogs each year and do these verifications include a review of installations on the base closure list?

Mr. FLINN. Yes, sir.

Mr. DICKS. Mr. McDade?

FOREIGN CURRENCY

Mr. McDADE. Thank you, Mr. Chairman.

Mr. Flinn, in fiscal year 1989, the Department's estimate for exchange rates was overly optimistic, which resulted in the underfunding of the O&M and military personnel accounts by approximately $1 billion.

Your statement indicates that the rates you have used to develop the fiscal year 1990 budget are realistic. Does this mean that the fiscal year 1990 foreign currency requirements are fully funded?

Mr. **Flinn**. Yes, sir. 1990 is fully funded.

Mr. **McDade**. What is the total fiscal year 1990 foreign currency funding requirement?

Mr. **Flinn**. I am going to have to provide that for the record.

[The information follows:]

The FY 1990 (original request) overseas program funded by the Operation and Maintenance appropriations is approximately $5,409.7 million.

Mr. **McDade**. What is the current estimate of the fiscal year 1989 foreign currency shortfall?

Mr. **Flinn**. At the time the budget was formulated we were projecting about a $1.1 billion shortfall. Assets of $563 million to cover that shortfall have been identified.

Rates have improved, however, we are still projecting approximately a $600 million shortfall.

Mr. **McDade**. Is that both on O&M and Military Personnel?

Mr. **Flinn**. That is only O&M. Military Personnel is approximately another $200 million.

I will have to verify that number for you.

[The information follows:]

Based on the March 15, 1989 allowances, the FY 1989 shortfall for overseas station allowance funded by the Military Personnel appropriations was projected to be approximately $266.4 million.

Mr. **McDade**. Close to another billion dollars, $6 and $2 million?

Mr. **Flinn**. Yes.

Mr. **McDade**. How do you expect to address the fiscal year 1989 shortfall?

Mr. **Flinn**. We will be forwarding a reprograming request using fuel assets in the stock fund.

Mr. **McDade**. So you will be cutting fuel supplies and war reserves by some 20 percent or thereabouts to finance that?

Mr. **Flinn**. No, sir. It is the result of fuel price adjustments. We are not cutting back on war reserve or fuel supplies. It is strictly price.

Mr. **McDade**. You will shorten out the fuel supplies by 20 percent?

Mr. **Flinn**. No, sir. We anticipate an asset materializing in the stock funds of approximately $800 million. The asset has not been fully realized, as a result of price differentials. It has nothing to do with the quantities of fuels we are buying.

Mr. **McDade**. For the record, provide the current and the fiscal year 1990 budgeted exchange rates, please.

[The information follows:]

The following are the current and the FY 1990 budgeted exchange rates for overseas activities funded by the Operation and Maintenance appropriations.

FOREIGN CURRENCY EXCHANGE RATES

[Units of Foreign Currency Per One U.S. Dollar]

Country	Monetary unit	Fiscal year 1990 budgeted rates	March 21, 1989 rates
Belgium	Franc	36.63	39.06
Canada	Dollar	1.23	1.19
Denmark	Krone	6.75	7.28
France	Franc	5.97	6.33
Germany	Deutsche mark	1.75	1.87
Greece	Drachma	144.93	157.31
Italy	Lira	1,298.70	1,369.86
Japan	Yen	123.52	131.11
Netherlands	Guilder	1.97	2.11
Norway	Krone	6.61	6.79
Portugal	Escudo	144.99	153.99
South Korea	Won	697.84	670.69
Spain	Peseta	115.00	116.70
Turkey	Lira	1,703.58	1,964.64
United Kingdom	Pound	.55	.58

EXPENSE/INVESTMENT CRITERIA

Mr. McDade. In fiscal year 1988, the Department requested authority to change the criteria used to determine if an item is an expense or an investment purchase, from $5,000 to $25,000. The Armed Services provided an increase to $15,000, but limited this to a 2-year test.

The report which accompanied the fiscal year 1989 DOD Appropriations Act directed the Department to submit the fiscal year 1990 budget request with the criteria established at $25,000.

Does the fiscal year 1990 budget reflect the $25,000 as the criteria for determining if an item is an expense or an investment?

Mr. Flinn. No, sir. It reflects $15,000, a continuation of the current threshold.

Mr. McDade. Why didn't you go to the $25,000?

Mr. Flinn. We did not have data that would warrant the increase.

Mr. McDade. On the other hand, you got direction from Armed Services to go back to $5,000, didn't you?

Mr. Flinn. It was a 2-year test, I believe, sir.

Mr. McDade. A 2-year test?

Mr. Flinn. We have not completed the total evaluation. The Department is still retaining the $15,000 threshold.

Mr. McDade. Are you doing the test? Are you using $5,000 through fiscal year 1990?

Mr. Flinn. No, we are not, sir. The budget reflects $15,000.

Mr. McDade. So you are not doing it at $5,000?

Mr. Flinn. No, sir.

Mr. McDade. What is the best way to treat this?

Mr. Flinn. I believe $15,000 gives the local commander the flexibility that he needs. I don't believe that we are going to gain that many further benefits by going to $25,000, but we are still looking at that.

Mr. McDade. What was the fiscal year 1988 and fiscal year 1989 experience with the criteria changed from to $15,000? Do you believe that the Department managed this change well?

Mr. Flinn. Yes, sir.

I believe it afforded the flexibility that the commander needed.

Mr. McDade. So your opinion is that it was a good change and a valid use of that number?

Mr. Flinn. Yes, sir.

Mr. McDade. For the record, what additional funding would be required in the fiscal year 1990 O&M accounts to pay for an increase in the expense/investment criteria from $15,000 to $25,000? What would be the decrease in the procurement accounts?

Put that in the record.

[The information follows:]

The FY 1990/1991 President's budget proposes to continue to use $15,000 as the criteria for determining whether an item of equipment should be considered an expense (funded in the O&M accounts) or an investment (funded in the procurement accounts). If the threshold is raised to $25,000, the following adjustments would be required in FY 1990/1991.

[TOA In millions of dollars]

	Fiscal year—	
	Fiscal year 1990	Fiscal year 1991
Operation and Maintenance	+64.1	+53.5
Operation and Maintenance, Army	+4.4	+3.6
Operation and Maintenance, Navy	+12.9	+12.7
Operation and Maintenance, Marine Corps	+1.0	+2.8
Operation and Maintenance, Air Force	+11.2	+9.1
Operation and Maintenance, Defense Agencies	+32.7	+23.0
Operation and Maintenance, Navy Reserve	+.4	+.7
Operation and Maintenance, Air Force Reserve	+.1	+.1
Operation and Maintenance, Air National Guard	+1.4	+1.5
Procurement	−64.1	−53.5
Other Procurement, Army	−4.4	−3.6
Other Procurement, Navy	−13.3	−13.4
Procurement, Marine Corps	−1.0	−2.8
Other Procurement, Air Force	−12.7	−10.7
Procurement, Defense Agencies	−32.7	−23.0

INF TREATY IMPLEMENTATION

Mr. McDade. In fiscal year 1988, the Department requested authority to transfer approximately $166 million to O&M, procurement, and RDT&E to cover costs associated with implementing the INF Treaty.

What do you estimate will be the fiscal year 1989 costs associated with this treaty?

Mr. Flinn. The 1989 costs that we are currently projecting is approximately $131.0 million.

Mr. McDade. Do you plan to fund these requirements with a reprogramming effort?

Mr. Flinn. No sir.

Mr. McDade. How are you going to fund it?

Mr. Flinn. The program is fully funded.

Mr. McDade. Was money requested in 1989 to do that?

Mr. Flinn. Yes, sir, it was.

Mr. McDade. What was the amount requested?

Mr. Flinn. The request, I believe, in the amended budget is $131.0 million.

Mr. McDade. What are the costs associated with an INF Treaty in fiscal year 1990 and have these costs been included in the budget request?

Mr. Flinn. It is approximately $142 million in fiscal year 1990 and they are reflected in the budget request.

Mr. McDade. Provide a breakout of the costs by service and appropriation.

[The information follows:]

INF Treaty—Resource Requirements

[In millions of dollars]

APPN/agency	Fiscal year 1990
Operation and maintenance:	
Defense agencies:	
OSIA	49.8
DNA	3.2
OSD ADUSD/SACC	.4
NSA	[Deleted]
DIS	.3
DIA	[Deleted]
Subtotal, DA	66.7
Army	39.0
Navy	11.6
Air Force	7.4
Total O&M	124.7
Procurement, Defense agencies:	
OSIA	1.0
NSA	[Deleted]
DIA	[Deleted]
Total procurement	14.1
Research, development, test and evaluation [NSA] (total RDT&E)	3.0
Grand total	141.8

FUNDING FOR INF TREATY VERIFICATION

Mr. McDade. Answer the question on Funding for INF Treaty, verification please, for the record.

[Clerk's note.—Questions submitted for the record and answers thereto follow:]

Question. Last year, $70,600,000 was appropriated for the On-Site Inspection Agency (OSIA). Realizing that fiscal year 1989 was the first year this agency was operational, it is understandable that higher funds were requested than actually required. $20,247,000 was reprogrammed from this account. For the record, please prepare a listing of what programs received these funds.

Answer.

Reprogrammed funds from OSIA

[In millions of dollars]

Program requirements:	Fiscal year 1989
DCAA—Audit workload increases	5.1
OIG—Audit workload increases	2.5
DNA—Nuclear test peronnel review expansion—track of personnel involved in above ground nuclear testing/exposure since WW II	2.0
WHS—Defense Applied Information Technology Center (DAITC) disestablishment	1.2
WHS—Pentagon boiler repair	3.5
DLA—DOD support to LANDSAT	3.0
DLA—Supply operations	2.7
Civilian pay raise (2.1 percent)	.2
Total	20.2

Question. Administrative support, which includes personnel, budget and finance, public affairs, supply, contracting logistics, and other areas, for the On-Site Inspection Agency is included in the budget request for the Defense Nuclear Agency (DNA). Last year, the Committee expressed concern whether DNA was the appropriate agency to handle the administrative requirements of OSIA and requested the Department to reassess this decision. Why was DNA, rather than OSD which provides administrative support to other DOD field activities, given this responsibility? In fiscal year 1990, DNA is again budgeting for the administrative costs of OSIA. Was this decision re-evaluated as requested by the committee?

Answer. The Washington Headquarters Service (WHS), which administers to OSD, does provide administrative support to several field activities which are relatively small and with a relatively low volume of activity. For WHS to provide administrative support to OSIA, with its high volume of travel and TDY, would have required a substantial increase in manpower and funding. The Defense Nuclear Agency (DNA) was tasked to provide executive agency support to OSIA predominately because both organizations report to the USD(A) and because DNA had the in-house structure to handle the related OSIA workload. This position was reevaluated during the FY 1990/1991 budget review and reconfirmed. However, as the result of a recent manpower study, thirty civilian support functions have been approved for transfer from DNA to OSIA to streamline functions and effect efficiencies of operation. The transferred functions include manpower, transportation, travel, administration, supply, management analysis, security, audio visual, and legal. The OSIA will still require DNA support for accounting/finance, budget, ADP, civilian personnel, engineering, and acquisition management.

Question. Since budgeting for the INF treaty verification is fragmented among the services and the defense agencies, the Committee in House Report 100-681 (FY 1989 DoD Appropriations Act) requested the Department to submit a consolidated listing of all funds requested in support of INF treaty verification with each budget submission. Was such a listing submitted with the fiscal year 1990 budget request? If not, why not and when will it be presented? Provide a copy for the record.

Answer. The consolidated requirements requested to support the INF Treaty are contained on page 396, Volume II, Defense Agencies Data Book supporting the FY 1990/1991 Biennial Budget submitted to the Congress in January, 1989. A copy is attached as requested.

[CLERK'S NOTE.—Classified insert was removed. End of questions submitted for the record.]

Mr. MCDADE. Let's talk about the Vander Schaaf study.

Section 8113 of the fiscal year 1989 DOD Appropriations Act requires the Secretary of Defense to submit an evaluation of the DOD Inspector General's report entitled "Review of Unified and Specified Command Headquarters."

On December 1, 1988, the Secretary responded that after evaluation of the DOD IG report, Unified and Specified Command Headquarters organizations could be reduced by 3,000 military and civilian spaces.

However, the Secretary's response indicated that these savings may be "reinvested" in unfunded requirements.

What is reflected in the fiscal year 1990 budget, a reduction of 3,000 military and civilian positions or a reinvestment of these savings?

Mr. FLINN. The reinvestment of those savings, sir.

Mr. MCDADE. What is the total dollar amount?

Mr. FLINN. I do not have the dollar amount with me. I do have the strength data with me, however. It is actually 2,990 personnel strength reduction to the Unified Commands through fiscal year 1991. It commenced in fiscal year 1989 520 in 1989, 1,818 in 1990. Those are cumulative numbers; and 2,990 by 1991.

This includes both military and civilian strengths. The Services were allowed to retain the strength for combat and medical units so there was no actual reduction; it has been reapplied.

Mr. MCDADE. Can you tell us what areas the savings are being reapplied and where are you investing this?

Put that into the record and provide a breakout by position funding and appropriation.

[The information follows:]

The reinvested savings were applied to combat and medical units to fill previously authorized but unfilled positions. Summary data on the number of personnel and strength reinvestments by Service and positions follows:

Service	Validated reinvestments		
	Military	Civilian	Total
Army	379	744	1,123
Navy	459	195	654
Air Force	426		426
Marine Corps	41		41
Total	1,305	939	2,244

Army: All military reinvestments were made to combat units. All civilian strength restorals were to support medical billets in medical facilities.

Navy/Marine Corps: All military reinvestments were made to medical and combat units (ships and air squadrons). All civilian strength was restored to medical facilities.

Air Force: All military end strengths reinstatements were for combat related aircrew/maintenance/security requirements.

The funding required to support this reinvestment of personnel savings is estimated as follows:

[In millions of dollars]

	Fiscal year—	
	1990	1991
Operation and maintenance	12.9	24.7
Military personnel	17.7	34.0
Total	30.6	58.7

Mr. **McDade**. What are the cost savings associated with a reduction of 3,000 military and civilian positions?

Mr. **Flinn**. I am going to have to verify this number—cumulative through 1991, about $80 million.

Mr. **McDade**. When you are doing that for the record, break them out by Military Personnel and O&M appropriation.

[The information follows:]

The initial computed cost savings for a reduction of 3,000 personnel were as follows:

[In millions of dollars]

	Fiscal year—	
	1990	1991
Operation and maintenance	19.6	36.2
Military personnel	21.2	42.0
Total	40.8	78.2

RECOUPMENT OF USER CHARGES

Mr. **McDade**. On November 23, 1988, the DOD Inspector General issued a report on user charges. This report was undertaken to determine if the DOD policies and procedures for implementing user charges were properly and consistently interpreted and implemented.

The report stated that there were situations where the rates charged were not reviewed or updated to ensure that total costs were recouped or that a fair market value was charged. Losses to the Government totaled approximately $20.6 million.

Additionally, the report states, the services were inconsistent and inaccurate in reporting statements of receipts to DOD. Have the recommendations of the DOD Inspector General been implemented?

Mr. **Flinn**. Sir, I am not familiar with the IG report. That is something I am going to have to pursue.

Mr. **McDade**. Provide it for the record and when the recommendations were implemented.

[The information follows:]

The Services have initiated the necessary actions to implement the recommendations contained in this report, but full implementation has not been completed at this time.

Full implementation has been scheduled to be completed by the Department by the end of fiscal year 1989.

Mr. McDade. Are the financial benefits of the DOD IG recommendations reflected in the fiscal year 1990 budget request?

Mr. Flinn. We do our best to reflect all recommendations on cost savings initiatives, but I will have to check this one.

[The information follows:]

No. As indicated above full implementation is not expected until the end of fiscal year 1989. Additionally, the monetary amounts at issue are still under review by the DoD IG. Further, most of the monetary benefits at issue would impact on the civil rather than the defense portion of the DoD budget.

O&M REPROGRAMMING THRESHOLD

Mr. McDade. In fiscal year 1989, both the House and the Senate Appropriations Committees reports included the recommendation that the reprogramming threshold should be raised from $5 million to $10 million. Has the Department followed up on this recommendation?

Mr. Flinn. Yes, sir.

Mr. McDade. Have you talked to the Armed Services Committee about it?

Mr. Flinn. Yes, sir, I have discussed it with the Armed Services Committee staff. There has been no negativism on the part of that Committee. They are well aware of the fact that we are using the $10 million.

Mr. McDade. Are you using that in the fiscal year 1990 budget?

Mr. Flinn. Yes, sir.

Mr. McDade. Thank you, Mr. Chairman.

TRANSFER TO THE STATE DEPARTMENT

Mr. Dicks. In fiscal year 1990, the State Department has required all U.S. Government agencies with offices in State Department buildings to begin paying for the administrative support provided by the State Department.

The Department of Defense is the Federal agency most affected by this policy. Is this a new policy for fiscal year 1990 and does this policy affect overseas or CONUS operations?

Mr. Flinn. The policy is an expansion. There has been some very small reimbursements to the State Department in the past, but they have expanded their reimbursement policy.

The Department will be reimbursing State at a greater level.

Mr. Dicks. Would you for the record tell us how much money you will need.

Mr. Flinn. Yes, sir.

[The information follows:]

A total of $20.5 million in fiscal year 1990 and $21.0 million in fiscal year 1991 is programmed for payment to the State Department from all organizations within the Department.

DEFENSE AGENCIES

Mr. **Dicks**. Regarding the questions on defense agencies we will put them in the record for you to answer.

[Clerk's note.—Questions submitted for the record and the answers thereto follow:]

Question. Section 601 of Public Law 99-433 (Goldwater-Nichols Department of Defense Reoganization Act of 1986) required the Secretary of Defense to reduce the total number of military and civilian employees assigned or detailed to permanent duty in the Defense Agencies and DOD Field Activities by 5 percent by September 30, 1988, and by an additional 5 percent by September 30, 1989.

In a letter dated March 2, 1988, the Secretary of Defense stated these agencies/activities will reduce their organizations by 4,921 military and civilian spaces, effective September 30, 1988. In this same letter, the Secretary of Defense indicated that he had proposed legislative language to forego the additional 5-percent reduction by September 30, 1989.

Has this legislation been submitted to the Congress? If so, when?

Has Congress enacted the required legislation to forego the additional 5-percent reduction in fiscal year 1989? If so, specify the law and section number.

If no legislative relief has been obtained, how many military and civilian spaces will need to be reduced in the Defense Agencies and DOD Field Activities by September 30, 1989?

For the record, provide a breakout of these spaces by Defense Agency and DOD Field Activity. Also, indicate by agency/activity the amount to be annualized in fiscal year 1990 as a result of these reductions.

Answer. Legislation has not been submitted to the current Congress providing for recision of the requirement to reduce Defense Agencies personnel by the end of fiscal year 1989 as required by the Goldwater Nichols Reorganization. The personnel levels in the fiscal year 1989 Defense Agency Program in the fiscal year 1990-91 President's Biennial Budget already reflect levels which are lower than the reduced levels required by the Goldwater Nichols Reoranization Act. Those reduced levels were approved by the Congress in passage of the fiscal year 1989 Appropriation Act which effectively accomplished the required reductions of the Reorganization Act.

[Clerk's note.—On May 11, 1989 legislstion was submitted to Congress to repeal section 601(b)(1)(B) and 601(b)(2)(B). End of questions submitted for the record.]

TRANSER OF LINE ITEM MANAGEMENT TO DLA

Mr. **Dicks**. When the Army, Navy, and Air Force are faced with O&M budget reductions and constraints, they will often review the number of items they manage.

The result can be that items currently classified as service-specific are reclassified and the management of these items is transferred to the Defense Logistics Agency, which manages items held in common for all services.

Has it been your experience that the services are transferring the management of items to DLA?

Mr. **Flinn**. Yes, sir, they have.

Mr. Dicks. If so, has your office acknowledged this trend and transferred the necessary funding to DLA?

Mr. Flinn. Yes, sir.

As the DLA budget is formulated, that is one of the factors taken into consideration in their workload.

Mr. Dicks. Has the number of line items classified as "service specific" and managed by the services decreased?

Mr. Flinn. I will have to look into that.

Mr. Dicks. Has the number of "non-service specific" items increased?

Mr. Flinn. I'll have to provide that information.

Mr. Dicks. For the record, please provide the number of line items managed by each service and the number of line items managed by DLA for fiscal years 1984 to 1988, estimated for fiscal year 1989 and budgeted for fiscal year 1990.

[The information follows:]

In nearly all cases, "service-specific" and "non-service-specific" line items have increased for all services and DLA. The lone exception is the Army. Through FY 1987 the level of "service-specific" items managed by the Army increased. The FY 1988 number of items managed, the current estimate for FY 1989 and budget estimate for FY 1990 show a decrease in the number of Army managed line items. Because FY 1989 and FY 1990 are estimates, it is not known whether these numbers will be achieved.

The following table portrays the actual number of line items managed by the services and DLA from FY 1985 through FY 1988 and the anticipated number of items managed for FY 1989 and FY 1990. Due to different data collection procedures, FY 1984 data is not available in the format requested.

NUMBER OF LINE ITEMS MANAGED

[In thousands]

	Fiscal Year—					
	1985	1986	1987	1988	1989	1990
Army	401	412	416	400	390	390
Navy/Marine Corps	626	639	643	655	660	660
Air Force	792	795	807	822	824	830
DLA	2,500	2,600	2,700	2,836	2,921	2,921
Total	4,319	4,446	4,566	4,713	4,795	4,801

PENSION PLAN COSTS OF DEFENSE CONTRACTORS

Mr. Dicks. In January of 1989, the DOD Inspector General released a report on the pension plan costs of defense contractors.

The DOD IG report stated that DOD's interests in excess pension plan assets of contractor-terminated and overfunded pension plans were not being adequately protected.

This situation has lead to a $195 million loss to the Government.

In addition, the DOD IG found that DOD components were not properly collecting or accounting for contractor debts. This situation has lead to a $67 million loss to the Government.

The IG made recommendations to correct the problems cited in its report to keep these kinds of situations from recurring.

Have all the DOD IG recommendations been implemented?

Mr. FLINN. Sir, again on this particular subject, I am going to have to check that out with the IG and with the services.

[The information follows:]

All of the IG's recommendations have been implemented, or are due to be implemented on or about July 25, 1989, with the exception of the following which have been identified for resolution:

Recommendation B.1.a—Require that DoD acquisition offices establish internal controls to ensure that contracting officers properly report contractor debts to the appropriate contracting officials, and that contractor debts are collected in a timely manner.

Recommendation B.2—Request that the responsible corporate administrative contracting officers provide details from three companies mentioned in the report concerning debts to the appropriate accounting offices to correct DoD's accounting records and reports.

Recommendation B.3—Request that the corporate administrative contracting officer at one company modify forward pricing rate agreements to include all eligible pension expenses that will preclude the company from obtaining a competitive pricing advantage over other prospective contractors.

Mr. DICKS. If not, answer for the record, when the recommendations be implemented?

[The information follows:]

Resolution of these recommendations is expected by July 25, 1989.

Mr. DICKS. Does the fiscal year 1990 budget include the financial benefits of the DOD IG recommendations?

You may answer that for the record, also.

[The information follows:]

No, the IG report does not claim any monetary benefits since DoD's entitlement to excess assets of contract-terminated and overfunded pension plans is still unclear. DoD may not be able to recover the estimated $195 million previously paid into terminated and overfunded contractor pension plans. The purpose of the IG's report was to prompt DoD into issuing clear, interim policy guidance that would settle the entitlement question and to request that the Defense Acquisition Regulatory Council revise the Federal Acquisition Regulation (FAR) and the applicable cost accounting standards to sufficiently protect DoD's interests in the future.

Mr. DICKS. The committee will stand adjourned until 1:30 this afternoon when we will have witnesses for the aircraft procurement, Air Force hearing. We will have other questions for the record.

Thank you, Mr. Flinn.

[CLERK'S NOTE.—Questions submitted by Mr. AuCoin and the answers thereto follow:]

DEFENSE ENVIRONMENTAL RESTORATION PROGRAM

Question. The Defense Environmental Restoration Program (DERP) is responsible for identifying, characterizing and cleaning-up (remedial actions) toxic and hazardous wastes at our nation's defense installations. What are the projected costs you know today for those actions at all of our installations? I'm asking for a total amounts and your best estimate at this time.

Answer. The estimated costs of the Installation Restoration Program (cleanup of hazardous waste sites) ranges from $9 to $14 billion (fiscal year 1987 constant dollars). This estimate includes studies and cleanup actions at DOD installations and formerly used properties in the 50 states and territories. There is uncertainty relative to the total funding requirements because there are still many remedial investigations to complete, which will indicate the number of sites actually requiring cleanup. Also, in some cases, cleanup standards are uncertain and agreements for remedial actions at National Priorities List (NPL) installations have not been reached with the Environmental Protection Agency (EPA) and state agencies. As the program matures and new information becomes available, this estimate will be revised accordingly.

Question. How many sites does DERP currently have listed as National Priority List (NPL) sites? What is your best estimate of the cost of cleaning up those sites? (An aggregate number will be sufficient)

Answer. Currently the Department has 36 sites listed on the NPL and 15 other sites have been proposed for the NPL. The status of DOD activities and funding for these sites through fiscal year 1988 is shown on Tables A–1a and A–1b of DOD's Annual Report to the Congress on the Defense Environmental Restoration Program dated March 1989. The total costs of remedial actions at these installations is not available since not all of the investigatory work is complete. This investigatory work must be accomplished in consonance with the National Contingency Plan process which has specific steps that must be followed. Since remedial actions cannot be predetermined, total costs are unknown.

Question. Of the installations listed by the Base Closure Commission for closure or realignment, which ones have NPL sites? (Please provide a list of those installations and the projected costs to cleanup those NPL sites on a site-by-site basis.)

Answer. Of the installations listed by the Base Closure Commission for closure or realignment, the following chart identifies the sites that are either on the NPL or proposed for the NPL and the current estimated costs for cleanup. Cost estimates will be refined as investigatory work is completed and remedial actions are determined.

[Dollar amounts in millions]

	DERP cost	Non-DERP cost
Alabama Army ammunition plan	18	([1])
Umatilla Army Depot (realignment only)	90	10
Mather Air Force Base	24	12
Norton Air Force Base	44	5
Ft. Dix (realignment only)	([1])	([1])
Total	176	27

[1] Undetermined

Question. The Army Depot at Umatilla, Oregon is slated for realignment by the Commission. It has two lagoons that are on the NPL list. There are other sites on the depot that require cleanup. Please provide for me the cost of cleaning up the NPL site and the cost of the other cleanup work needed at Umatilla.

Answer. The total cost for cleaning up the NPL site at Umatilla is approximately $7 million. The cost for other environmental requirements of the installation is estimated to be $93 million. These amounts will fund the following studies and cleanup:

(1) Decontaminate buildings
(2) Decontaminate chemical agent storage areas

(3) Remove asbestos from existing facilities
(4) Decontaminate igloos (1001 igloos)
(5) Study and remove underground storage tanks
(6) Study and remove PCB contaminated soil and transformers
(7) Study and remove sumps/sewers contaminated with explosives.

Question. Will DOD include in their budget request for fiscal year 1990 and the out years full funding for the environmental restoration work needed at base closure and realignment installations in order to meet the deadlines set down by the Base Closure Commission? I realize Congress has not yet acted on the Commission Report, but nevertheless, could you project for me the out-year costs of the environmental restoration work that will be necessary to meet the Commission's time deadlines? (Please itemize each of the out-year costs for each Base Closure installation.)

Answer. Yes, DOD has included environmental restoration costs for base closures in its fiscal year 1990 and outyear budget requests. Actual environmental cleanup from past hazardous waste activities will be accomplished under the environmental restoration program, using funds provided by the Congress for that purpose. When base closure locations or timetables are not consistent with worst-first priorities or contamination cleanup involves other activities not eligible for funding transfers from the Environmental Restoration, Defense appropriation, then the Base Closure, Defense appropriation may be used. Current estimated costs are at least $500 million based upon investigatory work underway at this time. It is also important to realize that the entire enviornmental costs associated with transfer of these installations to the private sector do not have to be funded prior to shut down of DOD activities. In short, we can "close" these bases and benefit from the operational savings without having to simultaneously fund all environmental requirements which may be associated with property transfer.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin. Questions submitted by Mr. Sabo and the answers thereto follow:]

TWIN CITIES AIR FORCE RESERVE BASE

Question. I have several questions concerning the clean-up of hazardous waste sites at the Twin Cities Air Force Reserve Base. The clean-up is handled through the Environmental Response Trust Fund.

A site known as the Small Arms Landfill at the Twin Cities Air Force Reserve Base has been put on the National Priority List (NPL) for hazardous waste sites. It is adjacent to the Twin Cities International Airport and is within 500 feet of the Minnesota Valley National Wildlife Refuge. The two- to three-acre site also lies about 100 yards from the Minnesota River and about two miles from the Mississippi River. The Landfill is listed as site number one of nine hazardous sites on the Base, which includes Minnesota Air National Guard, Navy, and Marine Reserve installations.

The Air Force has known about the potential dangers of this site for nearly six years. It was designated as a hazardous waste site in 1986, and was put on the NPL in 1987. Sites listed on the NPL have been determined to require immediate action because of the threat they pose to the environment and public health.

From 1962 to 1972 everything—from metal and wood scraps to paint sludge and chemical solvents—was dumped into the Small Arms Landfill. It was then burned and covered with dirt. The site is particularly dangerous because past flooding of the area has released contaminants (lead, zinc, mercury, and chromium) into the Minnesota River and it is only ten feet above the water table. Groundwater near this site already has been determined to be contaminated. Also, a 1983 Air Force study which was conducted by a private conultant, found a very high potential for migration of hazardous contaminants from the site.

Negotiations between the Minnesota Pollution Control Agency, DoD, and EPA began in October 1988. I would appreciate knowing the current status of these negotiations.

Answer. Negotiations are underway among the Air Force, Minnesota Pollution Control Agency and EPA Region V for an Interagency Agreement (IAG) under Section 120 of the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The strategy is to have a two part IAG, one for the NPL site and the other part to cover the non-NPL sites. Last meeting was held 17th and 18th of April 1989 with the next meeting scheduled for 3-4 May 1989. Several issues remain unresolved at this point. The issues raised by EPA V and the state focus on substantive deviations from the EPA/DoD model IAG provisions, thus delaying finalization.

Question. I would like to know the clean-up schedule for the Small Arms Landfill site as well as the other hazardous waste sites at the Base.

Answer. The following clean-up schedule for the Twin Cities Air Force Reserve Base sites constitute the best estimate at this time based on known conditions and interpretation of expected results of on-going remedial investigations.

Small Arms Range Landfill (Site 1): Remedial Investigation—completion of report (Dependent on EPA V review and concurrence with quality assurance project plan), December 1989; feasibility study, May 1990; remedial design (if required) May 1991; remedial action (construction and start-up) September 1991.

Past fuel spill (Site 7): Remedial investigation—completion of report, March 1989; feasibility study—completion, August 1989; remedial design/construction, June 1990; remedial action—operation start (operation could take 5-20 years), January 1991.

Other sites: MOGAS Spill (Site 4), Suspected Oil Spill Area (Site 5), Hazardous Waste Storage Area (Site 8), Battery Leaching Pit (Site 9), and Naval Station Underground Fuel Leak (Site P-4): remedial investigation—completion of report, May 1990; feasibility study—completion, September 1990; remedial design (if required), May 1991; remedial action start up (if required), May 1992.

Site 2, temporary landfill—Under evaluation to determine need for any additional remedial efforts.

Site 3, JP-4, fuel spill—Remedial action completed in April 1985. Clean-up efforts in agreement with Minnesota Pollution Control Agency (MPCA).

Site 6, AVGAS sludge burial pit—A Decision Document documenting no further action is planned for completion May 1989.

Question. Could you provide details of the groundwater contamination from these hazardous waste sites?

Answer. Details of the groundwater contamination are: Site 1, the Small Arms Range Landfill was put on the NPL in July 1987 with a score of 33.6. Three monitoring wells were installed in November 1984. Laboratory analysis of the groundwater showed no chemical or compound exceeding the Minnesota Drinking Water Standards. Only one chemical, mercury was detected at a concentration equal to Minnesota Drinking Water Standard (2 parts per billion). Eighteen new monitoring wells were installed in 1988. Additional laboratory analyses of groundwater were just performed, and will soon be released. Mercury was not detected this time. At Site 4 (1958-59 Gasoline Spill) soil samples of the area had no detectable contamination. At Site 5 (suspected POL spill) oil and grease constituent was detected at 28 parts per billion (ppb). This was below the recommended limits. At Site 7 (AVGAS Fuel Spill Area) a confirmed hydrocarbon plume has contaminated a limited area of the base soil with some clean-up already completed. At Site 8 (Hazardous Drum Storage) Volatile Organic Hydrocarbons were detected in the groundwater. At Site P-4 (heating fuel leak) results of groundwater testing are inconclusive at this time.

Question. What are the cost estimates for cleaning up the Small Arms Landfill and the other hazardous waste sites at the Base?

Answer. The estimated costs associated with the cleanup at these sites are based on known conditions and anticipated results of remedial investigations. To date $500,000 has been expended on investigations and cleanup action. Costs could deviate significantly due to unanticipated results of remedial investigations or to coordination of proposed remedial actions with regulatory agencies:

Small arms range landfill: Remedial investigation/feasibility study, $520,000; remedial design, $300,000 (if required); remedial action (construction and start up) $500,000 (if required); remedial action, yearly operation and maintenance, $50,000 (estimated operation of cleanup unknown).

Past fuel spill: Remedial investigation/feasibility study, $440,000; remedial design, $200,000; remedial action (construction and start up) $500,000; remedial action, yearly operation and maintenance $5,000 (estimated operation 5-20 years).

Other Sites: Remedial investigation/feasibility study, $700,000; remedial design, $300,000; remedial action (construction and start up) $800,000; remedial action, yearly operation and maintenance $150,000.

[CLERK'S NOTE.—End of questions submitted by Mr. Sabo. Questions submitted by Mr. Dicks and the answers thereto follow:]

CIVILIAN PERSONNEL ISSUES

Question. The budget proposes a 2-percent cost of living increase for civilian personnel, compared to a 3.6-percent increase for uniformed personnel. As you know, over the last several years the Congress has implemented a policy of equalizing cost of living adjustments for both civilian and military personnel. What would be the cost of adjusting the civilian increase to 3.6 percent?

Answer. DoD has budgeted approximately $530 million in FY 1990 for the 2 percent civilian pay raise effective January 1, 1990. If the Congress approves a civilian pay raise of 3.6 percent, the increase of 1.6 percent would cost an additional $424 million for a total of $954 million.

Question. We have already discussed in earlier hearings difficulties we are having in recruiting and retaining health care civilian professionals because of lower compensation levels than the private sector. I know in the area I represent, the Navy is having increasing difficulty with engineering professionals. In what other skill areas are we experiencing manning or quality difficulties? What steps are being taken to address these problems?

Answer. In addition to engineers and health care professionals, DoD is experiencing increasing difficulty in the recruitment and retention of a variety of occupational groups, limited for the most part, to major metropolitan areas. The largest groups affected are clerk-typists, clerk-stenos, guards, police, medical technicians, pharmacists, accountants, auditors, computer scientists, and quality assurance specialists. The metropolitan areas having the greatest problems are New York, Washington, D.C., Los Angeles, San Francisco, and Boston.

The steps being taken to address the problems are increased use of the special salary rate authority contained in 5 U.S.C. 5303, where appropriate, and increased use of the direct-hire authority. The special salary rate authority helps in some cases, but is inadequate in others. The direct-hire authority helps from the standpoint of enabling the Department to speed up the process of making a firm job offer to a prospective employee.

Question. Could authority for DoD by itself to approve special pays in critical shortage skills or locations help in this area?

Answer. If DoD had special salary rate approval authority, or authority similar to that provided to the Veterans Administration by Title 38, U.S. Code, it would allow for faster response to problem situations. The real problem, however, relates to the limitations contained in existing legislation. Special salary rates are limited by law to an amount that is no greater than approximately 30 percent above the regular General Schedule rates. In some cases (e.g., entry-level engineers), the maximum allowed is simply not sufficient to overcome the problem. In addition, special rates are approved only when the recruitment and retention problems are caused by higher private sector pay rates. To address this issue, the Office of Personnel Management has been granted temporary authority to approve special salary rates on other factors (including undesirable working conditions, remoteness, and higher salaries in any sector), and this authority should be made permanent.

Question. Last year, the Congress included provisions to provide industrially funded activities authority to exceed their assigned payroll allocation figures by 5% without prior outside approval but with a requirement for subsequent justification. This action represented a compromise from the House position which was to prohibit the application of payroll allocation methodologies at such activities as hampering management flexibility. How has this direction been implemented, and what experience, if any, can you report on its impact?

Answer. The Army field activities have been operating within the 5 percent payroll flexibility since the Congress stopped imposing end strength ceilings on the Department. The Army provided specific guidance to the various industrial fund activities relative to this congressional direction.

The Air Force did not have to change its policy since payroll constraints are not issued to the commands. The commands have complete flexibility to realign resources within funding availability to perform mission requirements in the most cost effective manner.

The Comptroller of the Navy on October 4, 1988, provided all major claimants with the authority to exceed their assigned appropriated funded work load plan by up to 5 percent for industrial fund activities. As of this time a number of industrial fund activity groups are executing ahead of the approved funded work load plan. However, no definitive conclusion can be drawn based on the experience to date.

Question. The conferees also expressed support for the initiative of the Navy Comptroller to continue unlimited flexibility to all major claimants which finance civilian payrolls in more than one appropriation to realign payroll allocation authority between financing appropriations accounts without prior approval with the same notification requirements as I just described. Have the other services followed the Navy's lead on this, and if not, why not?

Answer. No, they have not. The Army and Air Force policies for managing civilian manpower provide the major commands maximum flexibility to realign payroll allocations within appropriations. The major commands are requested to submit a civilian employment plan based on their available funding and work load requirements. As long as the commands have valid work load requirements and the available funding within the appropriation in which the work load is required, they can realign resources between civilian pay and nonpay funding.

TEMPORARY EMPLOYEES

Question. The Navy recently announced a program to make health benefits available to temporary employees. Please explain how this program will work and what the other Services are doing on this question.

Answer. Subsequent to the Department of the Navy announcing its intention to sponsor a health insurance initiative for temporary employees, the Federal Employees Health Benefits (FEHB) Amendments Act of 1988 (P.L. 100-654) was enacted in November 1988. This Act provides optional FEHB coverage to temporary employees who have completed one year of current continuous employment without any break in service of five days or less, on an employee-pay-all basis. Implementing instructions have been issued by the Office of Personnel Management and recently a special open enrollment period was held (March 14 through April 14).

As a result of this Act, the Navy canceled its Request for Proposal seeking a health insurance underwriter to form a policy for temporary employees. The Navy concluded that the size of the reduced population (that is, those temporary employees with appointments of 1-year or less) would not be sufficient to establish an affordable group health plan.

Question. For the record please provide the number of temporary employees at industrially funded activities for each of the services, and how those figures compare with the past three years?

Answer. The following is the requested information:

	Actual			Current fiscal year 1989
	Fiscal year 1986	Fiscal year 1987	Fiscal year 1988	
Temporary Employees:				
Army	1,845	1,461	1,438	1,509
Navy	5,609	9,490	6,966	6,037
Air Force	1,311	1,329	953	1,017

Question. What is current DoD policy for deciding between reductions in force and increased use of temporaries when there is work load fluctuation or uncertainty?

Answer. The Department cannot afford to hire permanent staff for peak work periods. The Department encourages the use of overtime and temporary employees in functions with variable work load to avoid any possible reductions in force. Each DoD manager at each operating level reviews the manpower requirements to ensure that the DoD mission is accomplished utilizing the most cost effective work force.

Question. What is current policy with respect to the maximum duration of temporary employment without express renewal approval?

Answer. In January 1985, the Office of Personnel Management (OPM) authorized employing agencies to grant competitive appointments of 1 year or less from their own registers for general schedules (GS) grades through GS-12 and to extend these appointments without OPM approval in increments of up to a year, not to exceed 4 years in total. All temporary appointments above GS-12 must continue to be made from registers maintained by OPM, and prior OPM approval is required for any extensions beyond a total of 4 years.

[CLERK'S NOTE.—End of questions submitted by Mr. Dicks. Questions submitted for the record and the answers thereto follow:]

PERSONNEL MANAGEMENT

Question. The Department of Defense's response to Operation and Maintenance budget reductions has been to threaten reductions-in-force and furloughs, and to seek voluntary early retirement authority. Ultimately, the financial shortfalls were solved through reprogramming and realignment of funds. Early retirement authority was used for relatively minor, short-term budget reductions which could have been covered by hiring freezes and not renewing temporary employees' appointments. Savings from early retirements in FY 1988 were largely erased by replacement hiring in 1989 and increased costs to the retirement fund.

In view of continuing efforts to decrease the Federal deficit and the resultant impact on the Defense budget, what personnel management alternatives are now being considered to accommodate reductions in civilian personnel budgets?

Answer. The Department's employment is based on manpower requirements that are determined by utilizing the most cost effective work force to accomplish the DoD mission within funding availability. The FY 1990/FY 1991 President's budget reflects a relatively flat level of employment for civilians. However, civilian employment could change as a result of the current budget review and the ongoing national strategy review.

The Department can accommodate small, gradual, and incremental reductions in the size of the civilian work force through hiring freezes and release of temporary employees. Greater reductions require the use of reductions in force and early retirements.

Short-term personnel reductions in the absence of decreases in funded work load or mission requirements can create imbalances. The preferred course is to reduce work load or to increase productivity which means doing more with less. If this occurs gradually and in a planned manner, restrictions on hiring can usually accommodate the required downsizing of the civilian work force.

Question. What strategy has the Office of the Secretary of Defense developed to apply these personnel management alternatives?

Answer. The Department has developed a DoD Productivity Improvement Plan to achieve three percent reductions in unit costs in the products and services DoD civilian employees provide to the armed forces. A variety of strategies are used to achieve this end. The Department invests in labor-saving capital equipment and new technology to reduce manpower and save money. DoD is implementing a total quality management concept to improve quality and to reduce rework and scrap, thereby reducing cost and increasing productivity. The Department is cost comparing inhouse operations with private sector bids to obtain products and services at the most economical price. The Department uses efficiency reviews to streamline operations and reduce both cost and manpower. DoD is using gain sharing programs to encourage employee productivity by sharing the savings with our employees. The Department also has a number of suggestion programs designed to encourage productivity.

These strategies seek to meet DoD requirements at lower cost with fewer workyears of effort. The long term effect is to reduce the number of DoD civilians needed, work load and other factors being equal. They are not a quick fix, since they require some upfront investment and often require a few years before the personnel savings are realized.

COSTS OF EARLY RETIREMENT

Question. Early retirements have been calculated by the Office of Personnel Management to cost the retirement fund 138 percent of a retiree's final salary, or about $49,000 for the average retireee. This cost consists of the amount of additional annuity paid out and retirement contributions not collected for the average two and one-half years before an early retiree would have been eligible for regular retirement, offset by savings from the reduced annuity after normal retirement age is reached. Another cost to be considered is the early retirement-induced exodus of senior technical personnel, along with the loss of their many years of experience.

Because of the substantial cost to the Government involved with early retirements, should the use of early retirement authority be restricted and closely monitored by the Office of the Secretary of Defense?

Answer. There are two issues involved in this question: (1) are early retirements a worthwhile personnel management option; and (2) should there be increased centralization of management control within the immediate Office of the Secretary of Defense?

With regard to the retirement option, while early retirements cost the retirement system money through increased benefits payments and shortened contribution periods, the Department believes the important question is whether actions taken under the option are worth the cost, and the Department believes they are. As DoD sees it, the option saves jobs, reduces agency disruption and mission impact, and minimizes adverse economic effects in the geographical area where a major reduction in force is occurring. Of course, the Department understands that the fiscal impact works in opposite directions—while increasing the costs to the retirement fund, early out decreases the agency's operating expenses and creates a pipeline of skilled staff for the future.

With regard to management controls, the procedures for such retirements are established at the Office of Personnel Management (OPM). OPM determines in advance whether to approve or disapprove each specific request from an installation. The Department believes these prodecures are generally adequate.

Question. What about requiring a reimbursement to the retirement systems for each early retirement?

Answer. There are substantial costs to the government associated with the early retirements. However, the Department does not believe that the solution lies with an agency budget penalty box approach. While early retirement costs are a small fraction of payroll costs, reduced early retirements where they are needed would take away a worthwhile means of easing adverse impact in work force reductions or realignments.

Question. Does the loss of experienced personnel degrade an organization's ability to perform its mission? How is this loss factored into personnel management decisions?

Answer. Yes, early outs advance the degradation that occurs from the loss of skilled personnel due to employee retirements. Consequently, every time an installation is given permission to use the early retirement option, field commanders are required to approve early retirements occupation by occupation to minimize the impact by limiting participation to specific groups, particularly noncritical skill employees. Where significant mission degradation would result, the option is not used.

OVERSEAS CIVILIAN WORKYEAR CONTROLS

Question. The Congress imposed a restriction on fiscal year 1987 overseas Department of Defense civilian employment by limiting workyears to the number actually expended in fiscal year 1986. A similar cap has been enacted in subsequent years. The Investigative Staff has reported that imprecise and inaccurate methods of establishing the overseas workyear base and of tracking workyear utilization will result in only symbolic compliance with this restriction. The effectiveness of any control on civilians overseas depends on the availability of timely and accurate employment data.

Please specify what steps have been taken to improve overseas workyear utilization reporting. Also, what, if any, data collection and reporting requirements have been levied by the Office of the Secretary of Defense to ensure compliance with the restriction?

Answer. The Office of Secretary of Defense (Force Management and Personnel) provides military and civilian manpower guidance to subordinate components for each fiscal year. That guidance allocates the Department's overseas civilian workyear ceiling and requests that each organization complete an annual civilian employment plan consistent with their annual budget estimates. The civilian employment plan projects monthly end strength and workyears, broken down by U.S. direct hire (conus and overseas) and Foreign National hire (direct and indirect) categories. Operating components are required to submit quarterly reports to OSD on actual manpower execution which the Department uses to monitor adherence to the overseas workyear ceiling and annual civilian employment plan.

TEMPORARY EMPLOYEES

Question. In its February 11, 1988, report to the Senate and House Appropriations Committees, the Office of the Secretary of Defense supported its policy on the use of temporary employees in these terms:

> The judicious use of temporary employees is an important element of a comprehensive staffing plan, one which assures management the flexibility to deal with workload peaks and the ability to preclude skill imbalances, while at the same time preserving the jobs of career employees from unnecessary turbulence.

Yet, when faced with budget cuts in fiscal year 1988, Service components and the Department of Defense (DOD) agencies made modest reductions in temporary employees and offered early retirements.

Why are the Service components and DOD agencies reluctant to separate temporary employees to meet strength targets?

Answer. The Department of Defense has always been reluctant to separate temporary employees at the end of each fiscal year to meet end strength targets. DOD employment levels have always been dictated by mission requirements and funded work load. The fact that DOD made modest reductions in its temporary employment work force in order to meet budget reductions in fiscal year 1988 is an indication that the Department still needs temporary employees to accommodate funded work loads and mission requirements, but that temporary employees are used in positions that are most affected by work load turbulence. The Department conducted appropriate program reviews and offered early out retirements in those functions occupied by predominately permanent employees in an attempt to balance resource reductions across both the permanent and temporary work forces in functional areas that could sustain manpower reductions without adversely affecting the DOD mission. Wherever and whenever mission requirements allow the release of temporary employees, the Department will use this work force reduction technique before adjusting the permanent work force.

MODEL INSTALLATION PROGRAM

Question. A number of MIPs have resulted in delegating increased local procurement authority to installation level. A Hoover Commission of the early 1970's had determined that procurement must be centralized to achieve economies in cost and to sustain a national supply system that would be operative upon arising contingency situations. The delegation of increased local procurement authority has been cited by supply professionals as potentially endangering the national supply system. Some installations have increased local procurement as opposed to use of General Services Administration (GSA) and Defense Logistics Agency sources by as much as 50 percent whereas others have not elected to do so at all. GSA has experienced an 8 to 10 percent reduction in its DOD business which is at least in part the result of local delegation. Those concerned with Supply policy who would have implemented procedures to track the impact to the national supply system were overruled by MIP advocates.

Provide the amount of line items and dollar amounts that have shifted to local procurement since implementation of the first MIP increasing local procurement authority. This may be in the form of totals procured and that which was obtained through local procurement in fiscal years 1986, 1987, 1988, and 1989 to date.

Answer. The Department does not currently collect the amount of requisitions and dollar amounts of local purchases that have transferred from DLA or GSA. However, the Department does have data which reflects the level of requisitions and dollar amounts for DLA and GSA for the years in question and is provided as follows:

[In millions]

	Fiscal year—			
	1986	1987	1988	[1] 1989
Purchases from:				
DLA:				
Requisitions	29.3	29.6	28.9	15.0
Value	$6,800	$6,300	$6,300	$3,000
GSA:				
Requisitions	3.4	3.6	3.1	1.6
Value	$661	$657	$675	$349

[1] Thru Mar. 1989

The data above does not provide any indication that a significant business volume has shifted from DLA or GSA to local procurement. In fact, the level of requisitions by DOD from GSA during the first six months of fiscal year 1989 are greater than the same period for fiscal year 1988 by 2.7 percent.

Question. What action has been taken by the Department to track the impact on the national supply system? What actions were implemented to assure that no degradation of that system occurs?

Answer. When increased flexibility to use sources other than the central supply system was granted through revisions to the DOD FAR Supplement effective February 1, 1988, a series of safeguards were established to ensure that no degradation of the national supply system occurred. Among these were prohibitions against local purchase of items that have war reserve requirements, are necessary for the wartime mission, are required to execute the unit deployment mission, or are required to support the industrial mobilization base. Also included are items directly related to the operation of a weapon system or its support equipment, items with special security characteristics and items of a dangerous nature (e.g. explosives, munitions).

When local purchase of other than centrally managed or stocked items occurs, file documentation of the advantage or advantages of local purchase are required for purchases exceeding $100 per line item. When the level of local purchases exceeds $1,000 per line item, the statement of advantages must be reviewed and approved one level above the contracting officer. Finally, when local purchases exceed $5,000 per line item, approval of a waiver request by the applicable line item manager (DLA or GSA) is required. The business volume of DLA and GSA is continually monitored and in concert with the safeguards implemented above, no degradation of the national supply system resulting from local purchases has been anticipated or demonstrated.

Question. It is understood that the National Institute of the Blind and the National Institute of the Severely Handicapped (NIB/NISH) have failed to achieve programmed expansion of employment in their manufacturing operations. Their's are extremely important social and economic programs. Provide the dollar value of the Department's procurement of NIB/NISH supplies as opposed to services in fiscal years 1986, 1987, 1988 and fiscal year 1989 to date.

Answer. The dollar value of DOD demand for NIB/NISH items for the years requested have been as follows:

[In millions of dollars]

	Fiscal year—			
	1986	1987	1988	[1] 1989
Purchases	108	130	116	57

[1] Thru Mar 1989

The demand in the first half of fiscal year 1989 was comparable to the same period in fiscal year 1988. This data was obtained from GSA.

Concerns about long-term trends in demand for the items produced by sheltered workshops are shared by NIB, NISH, DOD, GSA, and the Committee for Purchase from the Blind and other Severely Handicapped. Toward that end, DOD has worked with the

Committee to expand the mailing list for its procurement list, has offered assistance in marketing NIB/NISH products through DOD publications, and has issued a procurement policy letter emphasizing that the increased flexibility to buy from other sources other than the central supply system does not apply to items furnished by NIB and NISH. GSA is also collaborating with NIB and NISH on marketing efforts and identification of potential new products.

Question. Title 10, United States Code 2577 was established by the Military Codification Act of 1982. Its purpose was to reduce the impact to the environment due to waste disposal by the Department. Previously the proceeds from sale of the Department's recyclable material were deposited to the General Fund of the U.S. Treasury. The law provides that any net proceeds resulting from sale of recyclable material may, instead, be returned to the installation for environmental improvement (not more than 50 percent) or morale, welfare, recreation (the remainder and in practice virtually all). The law is clear that the cost of collection, transportation, segregation and the overhead cost associated with its sale by the Defense Redistribution and Marketing Office (DRMO) must be paid from the proceeds of the sale. In almost all cases the practice is for the installation's military and those civilians paid from appropriated funds to do these tasks using military equipment and that the costs are not reimbursed from proceeds of the sale.

Several MIPS and articles in the MIP Graduate Gazette have fostered the recyclable program. Title 10, USC 2577 requires that the costs of the program be reimbursed from proceeds of the sale. Provide an analysis of the extent to which this has been done and the extent to which services military personnel, the regular civilian workforce and base service contracts and the overhead costs of DRMOs have not been reimbursed.

Answer. On May 31, 1988 Deputy Secretary of Defense William H. Taft IV provided the results of an investigation into this question to the Chairman of the Committee on Armed Services, U.S. House of Representatives. Attached is a copy of the transmittal letter.

THE SECRETARY OF DEFENSE
WASHINGTON THE DISTRICT OF COLUMBIA

31 MAY 1988

Honorable Les Aspin
Chairman, Committee
on Armed Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

In reply to your letter of January 22, the Inspector General conducted an investigation into concerns provided to you by Chairman John D. Dingell that the Department of Defense had not properly implemented Section 2577 of Title 10, United States Code. The inquiry included fact-finding visits to three Defense Reutilization and Marketing Service facilities and eight military installations. In addition, input was received from the Assistant Secretary of Defense (Comptroller), the Assistant Secretary of Defense (Force Management and Personnel), and the Defense Logistics Agency. A copy of the report of investigation is enclosed.

The Inspector General concluded that the legislative intent of the statute is being met. Installation commanders have been provided an incentive to initiate and maintain aggressive material recycling programs, and most commanders have acted accordingly. The few administrative accounting and reporting problems found during the investigation will be corrected. The Inspector General made no recommendations to revise the statute.

Should you have any questions or desire a personal briefing, the Inspector General staff is available at your convenience. Your interest in this matter is appreciated.

Sincerely,

William H. Taft

William H. Taft, IV
Deputy Secretary of Defense

Enclosure

Question. The sale proceeds at Sacramento Army Depot did not reimburse the costs of collection, transportation, segregation and sale of their recyclable material. The proceeds have been to lease, on a long term basis, two condominiums at Lake Tahoe. Provide the number of General officers to which these condos have been sub-let at what approximate cost.

Answer. The two condominiums have been leased as part of the Sacramento Army Depot's Morale, Welfare and Recreation (MWR) outdoor recreation program. All authorized MWR patrons are eligible to rent these facilities. The lease is paid with non-appropriated fund (NAF) monies and rental fees charged fully offset this NAF expense. The average daily rental charge is $50.00 per day. The usage statistics for calendar year 1989 show that of 70 patrons, 12 were officers (including 3 General Officers), 20 were enlisted, 29 were civilians, and 9 were retired military of varying rank.

Question. Prior to implementation of this program, the proceeds from sale of recyclable material reverted to the General Fund of the U. S. Treasury to help offset some of the material debt. From your understanding of the legislative history of Title 10, USC 2577, what added service or protection to the environment was to be afforded that would justify the diversion of these funds into non-appropriated fund (NAF) accounts?

Answer. The Department of Defense position on the language of the statute and the legislative history is contained in Secretary Taft's letter referred to above and provided in response to a previous question.

Question. The only source for payment of Awards to personnel submitting an MIP for adoption is the Incentive Awards Act through the Suggestion Program. Therefore, a confirmatory suggestion must be submitted either concurrent with the MIP or after the MIP has been approved. The Army and Defense Logistics Agency employ the same personnel at all levels to process MIPs and suggestion, i.e., it is a consolidated function. The Air Force is doing a formal test of that consolidation at Travis AFB and actually practices it at a number of other installations. In all cases, the person who submits the idea determines whether it is a MIP or a suggestion. In other words there is virtually no difference between the content of an MIP or a suggestion. MIPs are afforded higher priority in processing, while Suggestions can gain a financial award for the submitter.

What are the annual direct overhead costs of the Suggestion Program?

Answer. The Department does not calculate these costs. The data needed for this calculation is not readily available and would require an extensive effort to collect.

Question. Explain the difference between an idea submitted as a MIP and that submitted as a suggestion. Is there any DOD directive that limits what can be submitted in either program?

Answer. There is a DOD directive governing the suggestion program. An idea may be submitted as a MIP, a suggestion, or both. Both programs exist to make sure we take advantage of every opportunity to get more defense for less money. Suggestions that result in savings may result in cash awards. Approved MIPs do not qualify in and of themselves for cash awards.

Question. Cannot the two programs be combined with a view toward providing uniform handling and reduce overhead?

Answer. The Army has combined the two programs. It is too early to tell whether combining them has strengthened either program or reduced costs. The Air Force is testing the idea. However, the test is not yet complete and it is too soon to speculate on its outcome.

Question. The MIP has been the source of a number of added benefits for the military member. Most noteworthy is the contract cleaning paid from Military Family Housing (MFH) Operation and Maintenance (O&M) funds. Previously the military member and his family upon vacating MFH quarters were required to spotlessly clean those quarters much as a civilian counterpart would. Now the member is required only to "broom clean". This was referred to as a temporary entitlement by a senior Department legal counsel in that it was not entered into the law by Congress, but merely written into Department directives. Another example in the MFH arena is a MIP approved for one installation where the base facilities engineers cut the grass up to the doors of MFH units rather than being the member's responsibility normally out to 50 feet from the unit. There are several MIP approvals that are being paid from Major Force Program VIII B funds at an ever increasing number of bases. These are referred to as Dial-A-Doc and Slightly Ill Little Kids (SILK), or variations thereon. In the first case pediatricians or physician assistants accompanied by corpsmen make house calls to see children of military members. In the second case, excess hospital beds or building wings are dedicated to housing on a daily basis for those children who have the sniffles, but are not ill enough to be sent to sick call.

It is understood that the Department has initiated a program whereby medical personnel pay house calls to see dependent children of military members. Provide the number of personnel involved in this program and its cost Department wide.

Answer. The Department does not have a formal program directing medical personnel to pay house calls to see dependent children of military members. However, local commanders have the flexibility to provide care to their patients as appropriate. In fact, the hospital at Fairchild Air Force Base has implemented a program called "Dial-A-Doc" where a physician assistant makes house calls to treat minor illnesses, primarily children. This has been well received and has been very successful at Fairchild.

Question. Another program is said to be the use of hospital rooms on a daily basis by slightly ill children in school or child care attendance. Explain the extent of this practice and its current cost plus any potential for expansion.

Answer. Currently this practice is limited to the hospital at Carswell Air Force Base and is restricted to children of single and two active duty parents. No additional resources are required for this program. There are no current plans for expansion of this program. However, the program has been successful in boosting morale and should improve retention of active duty families.

Question. The MIP Graduate Gazette indicates 24 hospital beds at Carswell Air Force Base has been dedicated for this purpose. Since military medical facilities sizing criteria is based upon the assigned active duty member strength does this mean that the hospital at Carswell Air Force Base was over built? Provide a Department wide listing of hospitals being used in this manner and the savings in Major Force Program VIII B funds that would occur if those portions of the hospitals were closed down.

Answer. The sizing of military treatment facilities is based on economic analyses per P.L. 97-337. The sizing decision for the Carswell composite medical facility construction project was based on the appropriate recommendations of an economic analysis completed in 1981. The project was completed in 1986 and provided a 140-bed, 23 dental treatment room hospital. The Carswell program admits children only when there is space available of the pediatric ward. No beds are dedicated solely for this purpose. There are no similar programs in other military treatment facilities.

Question. The Department has entered into memorandums of understanding with the Veterans Administration whereby the facilities and staffs of the two could be pooled to achieve overall economies to the taxpayer and improved service to the participants. Could any of the excess spaces being used for baby sitting of slightly ill children be applied to improving service for hospitalizing Veterans Administration patients?

Answer. The medical facility providing care to slightly ill children does so on a space available basis only. The beds provided are on the pediatric ward, which would be of no use to VA patients. Excess space does not exist to provide services to VA beneficiaries. Also, the VA has stated that there is no requirement for additional beds for VA patients in that area. However, there are numerous outpatient sharing agreements in existence between the VA and the Carswell Air Force Base hospital.

Question. Several years ago a proposed military construction project for Kirtland Air Force Base was revised to reflect joint use by the Department and by the Veterans Administration of their facilities in the Albuquerque, New Mexico area. Have all provisions of the MOU on that joint program been fully implemented? If not, which have not and why have they not been implemented? What are the costs of failure to implement.

Answer. Yes, all provisions of the MOU on the Kirtland joint venture have been fully implemented.

Question. OSD MIP office publishes a periodic gazette that is distributed to every DoD installation and actively delineates "outstanding MIPs". One example was that Aberdeen Proving grounds purchased its own fuel locally versus using the Defense Fuels Supply Center which purchases fuels and distributes at a uniform cost worldwide. The article also indicated that Aberdeen was then permitted to retain these savings for morale, welfare, recreational purposes. The article in the gazette generated requests from more than 100 other DoD installations to be permitted to procure their fuels locally. Eventually none chose to do so, but Aderdeen is still permitted to do so. A subsequent review of the case by the Army Material Command and the Department of Army according to Army sources, concluded that instead of a savings of $1.3 million, the action actually cost the Army $250,000 in added stock fund charges.

If a significant number of DoD installations should choose to purchase their fuels locally versus the Defense Fuels Supply Center, what would be the impact to the stock fund?

Answer. As recent experience indicates, other installation commanders are unlikely to purchase fuel locally. The stock fund fuel prices are generally lower because of economies of scale and the competitive procurement strategy of the Defense Fuels Supply Center. However, if a significant number of DoD installations chose to purchase fuel locally, stock fund fuel prices would be somewhat higher because of the accompanying loss of economies of scale.

MORALE, WELFARE, AND RECREATION FUNDING

Question. Over the past several years, the committee has provided consistent direction to the Military Departments to minimize appropriated fund support to Morale, Welfare, and Recreation (MWR) activities. To assist in achieving this objective, the Congress has imposed a limitation on the obligation of appropriated funds for MWR purposes in FY 1988 and FY 1989. It is, therefore, with some concern that our review of the Army budget data notes a projected shortfall in FY 1989 of some $95 million against their assigned share of the limitation. When was the Army first aware of this $95 million projected shortfall?

Answer. It was during FY 1988 that the Army first became aware of this shortfall. Foreign currency fluctuation rates used in the OP34 Exhibit were discovered to be different from those used in the appropriated budget submitted to Congress. This discovery was made several months after submission of the budget data for FY 1989. In addition, a significant shortfall in overwater transportation first became evident late in FY 1988 as obligation/execution data became available.

Question. What factors contributed to the shortfall?

Answer. The shortfall resulted from several factors. Use of outdated foreign currency rates and changes in the rates and requirments for overwater transportation were the prime factors. Those used to prepare the OP34 Budget Exhibit were different from those used in the appropriated fund budget submission resulting in an understatement of the MWR program on the exhibit. This resulted in the shortfall of limitation for the Army not in the funds available for the program since the basic budget documents correctly included the amounts required to support the program.

The inflexibility of the MWR spending limitation makes correction of the problem within the Department extremely difficult because there is no mechanism for accommodating inflationary cost increases that are beyond the control of the Services. They must be covered by reducing other portions of the MWR program.

Question. What action has the Army taken to avoid the projected shortfall, including the FY 1989 programmatic adjustments?

Answer. The Army's OP34 Exhibit revised submission reflects foreign currency pegged rates and the overwater transportation rates consistent with those used in preparation of the appropriated funded budget submission. In addition, OSD has forwarded a request seeking a legislative increase to the FY 1989 MWR cap by $95.4 million. Absent this increase, authorized appropriated fund support would be denied to MWR programs due to lack of MWR ceiling. To adjust, a combination of actions involving increased prices to soldiers, family members and/or program curtailments would have to be taken.

Question. Did these factors impact on the MWR budget limitation in FY 1988, and if so, what action did the Army take?

Answer. The MWR budget limitation in FY 1988 was not imposed until after the fiscal year had begun. At that time OSD was able to maintain a limited capability to meet unforeseen requirements. The Army did experience a similar foreign currency problem in FY 1988, and requested and received $51 million in additional spending authority for OSD. This shortfall, however, was not apparent until several months after submission of the budget data for FY 1989. As stated earlier, the full extent of the foreign currency and overwater transportation changes did not become evident until late in FY 1988 when execution data became available, leaving a shortfall of $95.4 million in FY 1989. The OP34 Exhibit for FY 1990 has been revised to reflect the correct foreign currency flucutation rates and overwater transportation rates so the situation should not recur in the future.

Question. What does the Army foresee as the implication of this projected shortfall in terms of potential violation of the Anti-Deficiency statute?

Answer. Though there is a projected shortfall, the Army will take all necessary and appropriate action to ensure there is no violation of the Anti-Deficiency statute. Should the requested legislative adjustment not occur, there will necessarily be reductions in services and program offering and increased fees and charges to soldiers and family members.

Question. What action does the Army propose to prevent a recurrence of this same situation in FY 1990?

Answer. The Army has relooked all factors impacting the OP34 Exhibit including the experience gained from implementing the FY 1988 and 1989 Congressional guidance. We believe that another MWR cap for 1990 would be unnecessary as the Army and other Services are aggressively implementing the congressional guidance nullifying the necessity for continuation.

In the future, the Army will assure that rates used in preparation of the OP34 exhibit are consistent with those used to develop budget authority requirements.

Question. Review of the Army budget data reveals a disturbing upward trend in the estimates for appropriated fund support to Morale, Welfare, and Recreation activities through the FY 1990 budget year, particularly in "Category D, Business Activities." Not only is this counter to the special direction in the past, but it is counter to the special direction to achieve a high degree of self-sufficiency in the revenue-generating activities. Explain in detail the reasons for increases in the FY 1990 budget requirements?

Answer. The FY 1989 limitation will be $626.7 million if the current request for legislative relief amounting to $95.4 million in increased spending authority (not funding) is approved. The projected FY 1990 amount is $685.2 million plus $49.8 million in Military Construction excluded from the limitation, for a total submission figure of $735 million. The increases are due solely to adjustments for foreign currency budget rates, inflation and contain the most current overwater transportation rate changes and requirements. The largest component of increase is the adjustment for foreign currency budget rates from FY 1989 to FY 1990. The Army has a considerable overseas presence with the greatest concentration in the Federal Republic of Germany. The FY 1990 rate for the DM is 1.75 to the dollar, a 17.7 percent increase in DM-sensitive expense over the FY 1989 rate of DM 2.06. In the Republic of Korea and Japan changes in the exchange rates have caused 19.8 percent and 24.3 percent increases, respectively. In order to maintain equivalent purchasing power in FY 1990, additional appropriated funds are required. Because FY 1990 is still a year for transition by realignment of activities among categories, approval of the levels submitted would be consistent with the congressional guidance to limit APF support to revenue generating business activities (Category D) and permit an orderly realignment of mission sustaining (Category A) and basic community support (Category B) activities.

Question. Explain how the Army plans to achieve the directed self-sufficiency in the category of revenue-producing activities by October 1, 1990?

Answer. In a phased approach according to OSD direction. Indirect appropriated fund support remains authorized for the Category, Business Activities. Regarding the activities transferring into the Category, Business Activities, realignment action began during FY 1988. Guidance has been provided to ensure an orderly transition so that by October 1, 1990 (FY 1991), self-sufficiency will occur without degradation of service provided. The plan ultimately calls for the systematic removal of appropriated fund paid personnel in these activities and the complete elimination of APF to NAF reimbursement. As the transition occurs, support is to be realigned to mission sustaining and basic community support programs. In FY 1989, for control purposes, the Army installed a totally revamped accounting and tracking system to capture all pertinent support.

A-76 PROGRAM

Question. A Department of Defense (DoD) official has indicated that there are significant resources being expended to implement the Commercial Activities Program (A-76) in DoD.

How many staff years are dedicated on an annual basis to administration of the A-76 Program by Service and Agency? What is the estimated total cost of program administration?

How many staff years are dedicated to the A-76 Program by personnel not directly associated with program administration, such as technical experts, contracting officers, civilian personnel representatives, and legal experts. What is the estimated total costs of this program support?

What has been the impact of dedicating these resources to implementation of the A-76 Program on other DoD priority missions?

Answer. The last count was made about four years ago when it was found that 1,700 people worked with A-76 programs full time. It is estimated that an additional 3,400 to 8,500 additional work years are devoted to A-76 cost comparison studies by employees who are not directly associated with program administration. The

Presidential Executive Order 12615 requires all Federal Agencies to study not less than 3 percent of the total civilian population, until all identified potential commercial activities have been studied. To comply with the Executive Order the Department is required to study approximately 29,000 positions during FY 1989. Because of the complexity of the cost comparison process, their technical and professional expertise is needed to help with the studies. These specialists are from civilian personnel, contracting, budget, etc. Using an average cost of $30,000 per workyear, DoD spends between $150 to $300 million per year doing A-76 cost comparison studies.

In some cases the assistance of these employees is part of their general responsibilities; i.e., being available to help solve problems and provide answers to technical questions. In many other cases, however, employees are being taken away from their primary jobs to work on A-76 cost comparison studies.

Question. The savings attributed to A-76 have been characterized as the difference between the original cost of performing an activity in-house by Government employees at the time the study was started, and the lower of either a contractor bid or in-house estimate for a specified performance.

Is the original cost of performing an activity by Government employees calculated by using the number of positions announced to the Congress at the study start or by some other computation method?

How is the 10 percent of in-house personnel related costs termed the "conversion differential," used in calculating estimated A-76 savings?

What is the actual budgetary impact of including depreciation expenses in estimated A-76 savings?

How accurate are the estimated savings attributed to A-76, and what procedures are used to periodically verify A-76 data provided by the Services?

Answer. The estimated original costs of performing an activity by Government employees is calculated by using the actual number of employees performing that function at the start of the cost comparison study.

The 10 percent differential is used to compare the Government's in-house cost to that of the private sector. To be awarded the contract, the private sector bid must be less than the Government's by a margin of at least 10 percent of the in-house personnel related costs. It is either subtracted from one or added to the other for purposes of calculating savings.

Depreciation expenses for capital assets such as plant and equipment are included in both the Government's and the private sector's bids to spread the cost of these assets over their useful life. Depreciation expense is typically an accounting entry that does not involve actual dollar outlays. Therefore, any anticipated budget reductions based on total estimated A-76 savings must first take into account the net effect depreciation expense has on savings.

The algorithm used to estimate A-76 savings is based on ratios between the original number of Government employees, the newly developed most efficient organization (MEO), and the winning bids. This provides the estimated original cost to the Government of the specific function studied. The winning bid, Government or private sector, is subtracted from this to estimate the savings and has proven to be an accurate estimate. One-hundred percent accuracy can only be obtained through an intensive cost study of the existing function, accomplished before the A-76 cost comparison process begins. This would increase an already lengthy process and add to the cost of completing an A-76 study.

The A-76 data provided by the Services and Defense Agencies is continually subjected to internal IG review, audit agency verifications, GAO reports and congressional committee scrutiny.

Question. Significant delays in completing A-76 studies have been attributed to the lengthy time required to develop and review Performance Work Statements (PWS) for large multifunction activities. What evidence is available to substantiate claims that contracting out all base services under a single "umbrella" organization is more cost effective than using smaller, single function contracts?

Answer. Past experience for umbrella contracts demonstrate efficiencies through economies of scale, both realized by the Government and the contractor. In addition, operational responsibility is centralized, which provides some efficiencies for Government contract administration.

Most importantly, the commanders decide between umbrella or single function competitions based on local circumstances which includes their ability to effectively and efficiently manage the cost competition and the contract.

Question. Why is it necessary for Army major commands to review and approve each A-76 PWS?

Answer. Experience has shown that an objective review is a good safeguard to minimize omissions.

Question. Why is it necessary for Headquarters, Department of the Army and the respective major command to review and approve each A-76 acquisition plan?

Answer. It is not necessary. The Federal Acquisition Regulation supplements the A-76 acquisition plan requirements for all contract actions above a certain dollar threshold, not just CA studies. Many, but not all, CA contract actions meet this criterion.

Question. Why is it necessary for the Army Audit Agency to provide an audit certification instead of only an independent review of PWS and most efficient and cost effective organization data?

Answer. The Army Audit Agency doesn't perform audit certifications, but an independent review. The independent review represents the Army Audit Agency's review of the cost estimates and verification that the in-house bid is based on the same level of work required of the contractor. The review identifies any discrepancies which would affect the cost comparison.

Question. The time period between the completion of a Performance Work Statement (PWS) for a large multifunction service activity and the award of a contract routinely takes over 2 years. Considering changing missions, equipment types, and funding levels, how accurate are the work requirements contained in multifunction PWS's at the time of award? How often do these contracts require modification coincidental with award due to outdated work requirements in PWS's?

Answer. The work requirements are as accurate as possible. There is a practical limit to accurately describing in a narrative statement such complex, fluctuating service requirements. The frequency in occurrences isn't readily available. The circumstances vary for each contract award. However, contract modifications due to changes in the work requirements aren't unique for Commercial Activities studies. Coincident or post-award contract modifications aren't unusual for service contracts.

Question. How have the decisions to contract out multifunction service activities at installations like Fort Sill, Fort Leonard Wood, Fort Belvoir, and Fort Carson been impacted by the significant modifications made coincidental with contract award?

Answer. A contract modification at time of award or later normally would not have affected the decision to contract. Because, if the work requirements change due to increases or decreases to the work, the costs for the MEO or the contract normally change proportionately.

MANPOWER STANDARDS

Question. In the Air Force, Management Engineering Teams (MET) develop and continually update manpower standards for almost all commerical activities. Service personnel have stated that these standards enable activities to ensure the most efficient use of available personnel. When MET personnel compute the Most Efficient and Cost Effective Organization (MEO) required under A-76 guidelines, the process consists of reviewing existing standards and incorporating suggestions from the activity under study. Since MET manpower standards are characterized as an efficiency measure, why do many A-76 studies result in MEO's that routinely reduce existing authorizations by as much as 40 percent of the original requirement?

Answer. Both the A-76 process and the functional review process that produces manpower standards are methods to enhance productivity. However, the two programs are implemented for different reasons and under different circumstances.

The primary emphasis of the functional review process is to maximize wartime effectiveness while optimizing peacetime efficiencies. Functional reviews apply to functions at locations not subjected to A-76 procedures and are developed for Air Force or major command-wide application rather than for a single base. These reviews do identify the most effective and efficient oranization prior to the next step of developing manpower standards. For example, a multi-skilling technique used in A-76 studies is being instituted Air Force-wide under Project Rivet Workforce. This initiative is an eight year undertaking that revamps the Air Force's concepts for deployment as well as our technical training for aircraft maintenance. Efforts like these are computed in functional reviews before our manpower standards are developed.

The resultant manpower standards recognize wartime requirements for mobility training, deployments, weapons qualification, medical appointments, and commander's calls. These manpower standards also recognize on-the-job training requirements, and organizational and additional duties. These duties are examples of institutional investments that the Air Force makes to maintain its operational wartime readiness. The number of aircraft mechanics necessary to generate wartime sorties at deployed bare base locations is greater than the number of aircraft mechanics required to operate a peacetime flying hour program for training purposes.

If the Air Force determines that a function at a specific location does not have a wartime or deployment requirement, and the function can be operated with an all civilian work force of contractor personnel, the A-76 process is used to maximize the peacetime efficiencies and reduce costs. These functions are evaluated and costed as a fully qualified, all civilian work force at the most efficient method of operation. In order to be more competitive with the private sector, the in-house operation emphasizes multi-skilling, reducing training, using part-time and intermittent employees, and reorganizing to ensure the least costly mode of operation for that specific location. The reduction in personnel authorizations results from these actions.

O&M INFLATION

Question. In FY 1988, the Department of Defense budgeted for an inflation rate of 3.5 percent for O&M purchases. What was the actual inflation rate?

Answer. The actual inflation rate for FY 1988 O&M general purchases was 3.5 percent.

Question. When the FY 1989 budget as submitted, the Department estimated the inflation rate for O&M purchases would be 3.7 percent. What is your current estimate for FY 1989 inflation rate for O&M purchases?

Answer. The current budgeted inflation rate for FY 1989 O&M general purchases is 3.8 percent.

Question. What is the FY 1990 budgeted inflation rate for O&M purchases?

Answer. The current budgeted inflation rate for FY 1990 O&M general purchases is 3.4 percent.

Question. The FY 1988 budgeted rate for fuel was 13.1 percent. What was the actual FY 1988 inflation rate for fuel?

Answer. The initial FY 1988 budgeted inflation rate for fuel purchased by the stock funds was 13.1 percent. However, due to steady increases in fuel prices during FY 1987 over those originally projected, the Department revises the FY 1988 fuel prices at the beginning of FY 1988 using 16.6 percent. The actual FY 1988 inflation rate for fuel procured by the stock funds was 11.9 percent. The customer accounts paid the higher prices established at the beginning of the fiscal year since they purchase fuel based on the stabilized price concept.

Question. When the FY 1989 budget was submitted, the Department estimated the fuel inflation rate would be 3.9 percent. .What is the current FY 1989 inflation rate estimate for fuel?

Answer. The current FY 1989 inflation rate for fuel procured by the stock funds is −18.08 percent. There is no change in prices for the customers between FY 1988 and FY 1989.

Question. What is the FY 1990 budgeted inflation rate for fuel?

Answer. The budgeted FY 1990 inflation rate for fuel procured by the stock funds is 9.92 percent. Fuel inflation reflects projected price based on world market supply and demand conditions. It is not solely a market basket of economic considerations that is used as the basis for the O&M general inflation indices. The FY 1990 stabilized composite price for customers is 11.0 percent below the FY 1989 stabilized composite price.

[Clerk's note.—End of questions submitted for the record.]

Wednesday, April 5, 1989.

OPERATION AND MAINTENANCE, ARMY

WITNESS

BRIG. GEN. JOSUE ROBLES, JR., ASSISTANT DIRECTOR FOR OPERATIONS, OFFICE OF ARMY COMPTROLLER

Introduction

Mr. Murtha. The Committee will come to order.

Today, we welcome Brigadier General Josue Robles, Jr., Assistant Director for Operations, Office of Army Comptroller. This is your first appearance in this capacity, General, and we will put your biography and entire statement in the record.

Please summarize your statement and then we will get right to the questions.

Summary Statement of General Robles

General Robles. Thank you, sir, and members of the subcommittee for the opportunity to appear today. I would like to quickly summarize my statement.

As you know, the Army's 1990-91 budget request is $24.3 billion for fiscal year 1990 and an additional $25.6 billion for fiscal year 1991.

The request for 1990 includes an increase of approximately $1.6 billion over the 1989 level. Of this amount, approximately $793 million is for price growth. The remaining $760 million represents approximate real growth of 3.4 percent for the Army.

For 1991, our request increases by $1.3 billion over the 1990 level. This consists of approximately $512 million for price growth and approximately $776 million for program growth representing about 3.3 percent real growth in the O&M appropriation.

I would also like to note that the O&M appropriation as compared to the Army overall total obligation authority represents approximately 30 percent of the Army overall budget.

In my remarks, I would like to say that we have some unique challenges in the Army, as in the other services, in that we all face an austere fiscal environment. From an Army perspective, our real challenge is that as we went from 1987 to 1988, we lost about 8.1 percent in buying power. When the 1989 Appropriations bill came out, we were about even. Yet, we are substantially less than our 1987 level of funding.

Therefore, as you see in my statement, I have tried to show where we in the Army are trying to take sort of a dual approach. First, we must improve our efficiencies and economies wherever possible so we can maximize resources—this is particularly true in O&M. It covers everything from training to base operations support, automation initiatives, central supply and logistics. We believe that our budget request does that. Wherever we find efficiencies, we attempt to show them.

Finally, I would say, Mr. Chairman, that given the environment we are facing, the Army's budget request follows the Army's priorities, which are number one, to maintain near-term readiness; and two, to protect essential sustainability. With that as a backdrop, I stand ready to answer your questions.

[The biographical sketch and statement of General Robles follow:]

BIOGRAPHY

BRIGADIER GENERAL JOSUE ROBLES, JR.
UNITED STATES ARMY

General Josue (Joe) Robles, Jr. was born in Rio Piedras, Puerto Rico on 24 January 1946. He was drafted into the United States Army in 1966 and received his commission as a Second Lieutenant through the Artillery Officer Candidate School at Fort Sill, OK in 1967. He received a Bachelor of Business Administration degree in Accounting from Kent State University in 1972. He also holds a Master of Business Administration from Indiana State University. His military education includes completion of the Field Artillery Basic and Advanced Courses; the Spanish General Staff College; and the United States Naval War College.

General Robles has served in a wide variety of important command and staff positions culminating in his current assignment as Assistant Director for Operations, Army Budget Office of the Assistant Secretary of the Army (Financial Management), Headquarters, Department of the Army. His early troop assignments include several command and staff positions in Field Artillery units in Korea; Fort Knox, KY; Vietnam; and Germany.

General Robles' mid-level assignments include Chief, Manpower & Management Analysis Branch and Chief, Program and Budget Branch, Resource Management Department, United States Army Institute of Administration, Fort Benjamin Harrison, IN; duty as special assistant to the G-3, 1st Infantry Division(Mech), Fort Riley, KS; and Battalion Commander, 1st Battalion 7th Field Artillery, 1st Infantry Division, Fort Riley, KS.

Recent assignments include Chief, Program and Budget Office, Office of the Deputy Chief of Staff for Operations and Plans (ODCSOPS), Headquarters, Department of the Army; Division Artillery Commander of the 1st Infantry Division (Mech), Fort Riley, KS; and Army Planner, ODCSOPS, Headquarters, Department of the Army.

General Robles' military awards include the Legion of Merit (with Oak Leaf Cluster), the Bronze Star Medal, Meritorious Service Medal (with Oak Leaf Cluster), Air Medal, the Army Commendation Medal (with Oak Leaf Cluster), the Army Good Conduct Medal, and the Army General Staff Identification Badge.

General Robles is married to the former Patricia Ann Gavin of East Greenwich, RI and has two sons, Joseph (17), Andrew (1) and a daughter, Melissa (15).

STATEMENT OF BRIGADIER GENERAL JOSUE ROBLES, JR.

Mr. Chairman and members of the committee:

I am delighted to have the opportunity to present the Army's FY 1990/91 Operation and Maintenance, Army (OMA) Appropriation biennial budget request.

The OMA appropriation provides the essential funding to support the Army leadership's vision of how the Total Army should prepare for land combat today and tomorrow. To maintain and sustain modern, ready ground combat forces our Nation must:

o Recruit and retain high quality soldiers;

o Train them in a realistic and demanding environment;

o Organize them in a force structure that demonstrates resolve and flexibility through forward deployed units, backed by a strategic reserve capable of rapidly projecting ground power;

o Modernize and support them to ensure qualitative advantages over our adversaries; and

o Develop the leaders needed to command and inspire our soldiers in war and peace.

In recent years, with your help, we have improved the Army's readiness by recruiting and retaining quality soldiers, enhancing soldier and civilian skills and motivation, and modernizing the force with equipment of much greater capability.

Maximum readiness depends on a rational balance among the investment, personnel, and operation and maintenance appropriations. At the same time, given the austere budgetary environment, we must maintain stewardship over the scarce resources that we have been allocated. We feel our FY 1990/91 OMA budget request provides the necessary funding to operate and support a ready Army.

MANAGEMENT INITIATIVES

We, in the Army, take our role of stewardship very seriously. I am proud to be able to bring to your attention some areas where we have made inroads in the area of financial management.

o In an effort to maximize efficiency and conserve resources, I would like to share with you some of the steps we have taken to improve operations. In Public Law 99-627, Congress permitted the Administrator of the General Services Administration (GSA) to delegate authority to agencies to conduct prepayment audits when deemed cost effective or otherwise in the public interest. Under the auspices of the DOD Transportation Cost Reduction Program, the Army is conducting a test program which requires the pre-audit for all freight bills over $10,000 in value; for all guaranteed traffic bills; and for all rail bills for transportation into and out of Fort Irwin, CA, home of the National Training Center. The purpose of this transportation pre-audit is to ensure we do not overpay carriers to move materials. In the past, these transportation bills were reviewed after the fact. The US Army Finance and Accounting Center (USAFAC) is using an in-house capability of civilian overhires to conduct a one year test to determine the actual level of savings which would result from conducting the pre-audit mission. Funding for the test was provided from within the Army's current FY89 program ($500 thousand). It is anticipated that savings from the program will be in the form of cost avoidance. We are very excited about the prospects of this program in the transportation arena.

o A program that is seeing more and more emphasis within the Army is the concept of chargeback for products or services. Instead of centralizing funds for particular missions, we now decentralize the funds to the Army commands that use the services. This means that users are charged for their products and services based on utilization rates instead of having them paid for by a centralized account or by a single command. As execution occurs, the command or installation using the services is billed or charged for the fees associated with that service. Since users are required to pay for their services, there is an economic incentive for them to obtain products and services only at the minimum level required and at the least cost. This concept is being tested in the Information Mission Area and in the Hazardous Waste Disposal Program.

o Another management initiative deals with the way the Army will pay for official mail beginning in FY 1990. Currently, postal charges are incurred at all levels within the Army but are paid centrally. Major commands are issued mail targets but do not really have the economic incentive to efficiently manage postal charges. The new method will change how the Army pays for official mail from a "charge" or delayed payment mode to the private sector method of prepaid or pay-as-you-go way of doing business. This new approach offers several stewardship advantages. We dispel the perception that mail is free to Army users. We bring fiscal and management responsibility down to the garrison level where costs are incurred thereby giving commanders an economic incentive to find the least costly method for mailing.

o We are also making progress in the area of civilian personnel management. Currently, the Army is testing a civilian personnel modernization initiative called Managing the Civilian Work Force to Budget (MCB) at 15 Army activities. It involves delegation of authority for position classification and management of civilian personnel resources to the lowest practical level of management. Administrative controls on employment levels, high grade positions, and overtime are replaced by single dollar limit for civilian personnel costs. This allows commanders and local supervisors to structure their work force according to mission requirements without arbitrary and artificial constraints. MCB also requires activities to develop incentives for increased productivity by returning savings to well managed organizations. The total payroll expenditures by the 15 initial test activities during FY88 was $5 million under budget. Twenty percent ($1 million) was validated as savings achieved through proactive management initiatives, and shared between the activity and activity employees through reinvestment plans and incentive awards. MCB will be expanded in FY90 to an additional 30 activities.

o Finally, I would like to give you a few examples of how our soldiers and civilians are utilizing their computers and automated systems to improve the way we manage our resources.

oo As part of the installation support module effort, dedicated civilians at the US Army Field Artillery Center at Fort Sill, OK developed an automated system to process high-priority requisitions. This streamlined process fills critically needed items in a shorter amount of time. Time savers allow us to concentrate on our most pressing missions.

oo At Fort Hood, TX, we are undergoing a prototype test in logistics management. This initiative, called the Objective Supply System, substantially reduces the supply pipeline and provides the supply clerk with repair parts visibility installation wide. The goal is improved readiness.

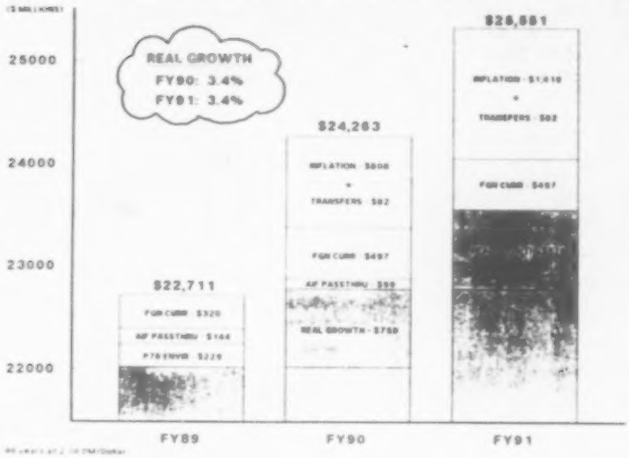
I wanted to give you a sampling of the many areas in which the Army is pursuing efficiencies and economies in order to more fully utilize our scarce financial resources. Smarter and more cost efficient ways of doing business is an important Army financial management goal.

CHANGES FROM FY 1988/1989 BIENNIAL BUDGET REQUEST

Chart one shows the growth in the OMA budget from FY 1989 through FY 1990/91.

OMA REAL GROWTH FY89 TO FY91

(SOLID BAR SEGMENTS REPRESENT FY89 CONSTANT $)



However, this growth should be viewed in perspective against the -8.1% negative real growth experienced by the Army from FY 1987-88.

Chart two provides you a more detailed look at what happened to FY 1989 funding:

WHAT HAPPENED TO FY 1989

($ MILLIONS)

FY 1989 APPROPRIATION		$22,062
TRANSFERS:		
ENVIRONMENTAL RESTORATION	$229	
FUEL INFLATION SAVINGS	$321	
FY 1989 CIV PAYRAISE	$136	
SPECIAL OPERATIONS FORCES	$18	
BUREAU OF LAND MANAGEMENT	$-6	
SUBTOTAL TRANSFERS	$698	
PRICE GROWTH	$-49	
FY 1989 CURRENT ESTIMATE		$22,711

FY 1990/91 BUDGET REQUEST

Over the last few years, the Army leadership has had to make some very difficult decisions on the allocation of its scarce resources while still maintaining its current readiness and continuing its modernization effort. The resources have been allocated to support the following Army priorities:

- o Maintain essential force readiness;
- o Protect essential sustainability;
- o Slow, but do not end modernization; and
- o Minimize force structure impacts.

Chart three is a listing of the OMA budget, by budget category, and the resulting dollar allocation:

OPERATION & MAINTENANCE, ARMY

BUDGET PROGRAM

(CURRENT $ IN MILLIONS)

PROGRAM	1988	1989	1990	1991
2 GEN PURPOSE FORCES	3,859	3,974	4,163	4,307
3I INTELLIGENCE	301	308	345	369
3C COMMUNICATIONS	977	1,007	1,166	1,261
7E ENVIRONMENT	179	229	0	0
7S CENTRAL SUPPLY	2,979	3,058	3,302	3,401
7M MAINTENANCE	2,022	2,422	2,568	2,762
8T TRAINING	1,116	1,135	1,219	1,282
8M MEDICAL	2,267	2,449	2,588	2,753
80 OTHER	703	715	764	793
95 ADMINISTRATION	839	952	1,006	1,038
10 OTHER NATIONS SUPPORT	240	251	283	273
11 SPEC OPNS FORCES	190	197	212	227
12 BASE OPERATIONS	5,810	6,014	6,647	7,096
TOTAL PROGRAM	21,482	22,711	24,263	25,561

HIGHLIGHTS OF THE FY 1990/91 OMA BUDGET REQUEST

READINESS

TRAINING

Training, the key to our near term readiness requires resources and programs designed to train leaders, units, and individuals.

UNIT TRAINING

Keeping our units ready for wartime employment is central to the Army's mission. Units conduct training both at home stations and at local training areas and combat training centers especially designed to give the unit the experience necessary to perform at top conditions in combat. OMA funding for the fuel, repair parts, and transportation costs of unit equipment and operations is key in this effort. Our combat training centers allow the Army to train for low- to mid-intensity conflict under the most demanding and challenging conditions. Facilities include the National Training Center (NTC) at Fort Irwin, CA; the Combat Maneuver Training Center (CMTC) at Hohenfels, FRG; and the

Joint Readiness Training Center (JRTC) at Fort Chaffee, AR. The Army's budget request supports 33 rotations to the NTC; 9 rotations in FY 1990 and 12 rotations in FY 1991 to the JRTC; and provides funding for the continued development of the CMTC which will begin full operational capability in FY 1991.

OPTEMPO

OPTEMPO is a means of allocating resources for a particular training strategy and the resultant readiness levels. This request supports for FY 1990/91 a ground OPTEMPO of 800 miles and an air OPTEMPO of 15.0 hours/crew/month. We are making every effort to explore alternative means of garnishing valuable training from simulators and other training devices. For example, our battle simulation centers improve combat readiness through the decentralized Battle Simulation Centers at Corps and Division levels. These facilities which are designed for command and staff training are configured for the employment of computer simulations, terrain board models, and tactical communications necessary to replicate those forces assigned to the staff being trained. At Ft Hood, Texas, the battle simulation center will enable the portrayal of a mature Corps of five divisions (150,000 - 170,000 soldiers) utilizing only 600-700 controllers in the facility role-playing either friendly or opposing forces.

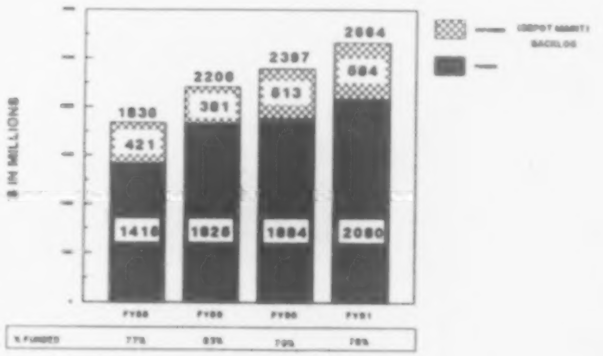
DEPOT MAINTENANCE

The FY 1990/91 budget supports our unit operations and training for an OPTEMPO of 800 miles and 15.0 flying hours. As fielded systems increase, our requirements continue to grow thereby, increasing the number of secondary and end items that must be overhauled. The materiel maintenance program (overhaul, modifications, conversions) is resourced at 79% for FY 1990 and 78% for FY 1991. With current resources, we are not able to support 100% of our end item maintenance. Secondary items which support near term readiness are maintained at 100%. However, end items will be maintained at 58% of our requirements. Our backlog grows from $381 million in FY 1989 to $513 million in FY 1990 to $584 million in FY 1991. This is clearly an area that needs assistance.

Chart four displays the Depot Materiel Maintenance Program and Backlog.

DEPOT MATERIEL MAINTENANCE

(As of the FY90/91 President's Budget)



CENTRAL SUPPLY ACTIVITIES

The FY 1990/91 budget supports the highest priority near term readiness central supply requirements, INF treaty initiatives, and the highest priority second destination transportation requirements. We are faced with the challenge to adequately meet ammunition demilitarization requirements, develop logistics automation requirements to offset declining manpower resources, and, provide procurement support functions to meet lead time requirements.

PEOPLE

The soldiers, civilians and their families are the strongest and most important part of our Army. Adequate living and working conditions must be provided to encourage the best qualified and motivated people to enter and remain as active participants in the Army Family and to make Army service their career.

RECRUITING AND EXAMINING

The Army is faced with recruiting in a shrinking eligibility pool of young people. As you are aware, the Army was unable to meet its recruiting goal for FY 1988. Our recruiting and examining funding is at the FY 1984 level of effort. Reduced funding along with a recruiting and advertising cap restricts our ability to provide the advertising we need to bring in quality recruits and retain the good soldiers that we have already trained. Dedicated, skilled recruiters backed up by sophisticated modern advertising are essential in retaining our current force and attracting high quality recruits who will become our innovative leaders and technicians in the future.

HEALTH CARE

The FY 1990/91 Medical Care Program budget provides for worldwide medical and dental services to active forces and other eligible beneficiaries, veterinary services, medical examinations performed in Military Enlistment Processing Stations, and other support activities of the direct health care system. This request also fully supports the currently known CHAMPUS funding requirements. In an effort to bring down rising CHAMPUS costs, the Army supports a partnership agreement program whereby health care providers are brought into military medical treatment facilities to treat CHAMPUS beneficiaries, for a negotiated fee that is below the respective state allowable limit. Experience is showing that there is a potential for savings in the CHAMPUS program while at the same time increasing utilization of military medical facilities.

ARMY INFORMATION RESOURCES MANAGEMENT

The goal of Army information resources management is to ensure that appropriate, timely, and accurate information is identified and made available for satisfying user requirements in the execution of Army missions. The Army Information Mission Area (IMA) consists of five disciplines: telecommunications, automation, visual information, records management and printing, and publications. IMA resources serve as a force multiplier on the battlefield. In the sustaining base, IMA resources allow the Army to accomplish increased workloads in support of logistics, personnel, medical, and financial areas more efficiently and with less manpower.

FORCE STRUCTURE

OMA funds continue support for Light Infantry Division (LID) initiatives at Fort Drum, and the 6th Infantry Division in Alaska. The Army also continues the heavy forces redesign.

CIVILIAN WORK FORCE

The budgeted civilian employment level in the FY 1990/91 budget supports the most critical OMA programs. Any further reduction in the civilian work force will cause a return to "borrowed military manpower" and detract from unit training and readiness. Our current Army goal remains utilizing our civilian strength wisely by management efforts such as capitalizing on productivity enhancing technology, modest increases in overtime, and continued private sector contracting.

INSTALLATION OPERATIONS

The Army conducts operations at over 300 installations and activities in the United States, Europe, the Pacific, and the Panama Defense Complex. The majority of these depend on OMA funding for the myriad of support functions performed by the supporting workforce and contractors. As you are aware, the Base Operations and Real Property Maintenance accounts have been reduced. Although maintaining our facilities is important, we have whittled this account down to the bare minimum. Our Commanders are doing much to improvise and maintain operations at many of our installations.

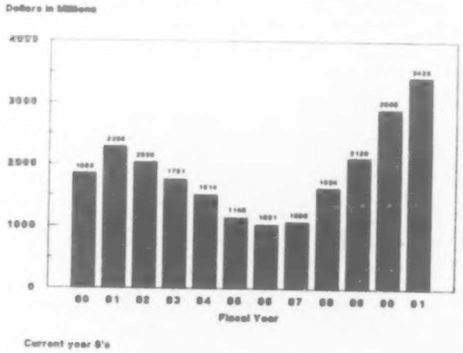
BACKLOG OF MAINTENANCE AND REPAIR (BMAR)

The Army operates and maintains an aging physical plant with extensive holdings worldwide. In this budget the backlog of maintenance and repair is predicted to continue to increase with the current funding requested. It grows over FY 1989 by $778 million and over FY 1990 by $527 million. This results in postponing much of the needed maintenance and repair on aging Army real property assets.

Chart five shows you the growth in BMAR since FY 1980.

OPERATION AND MAINTENANCE, ARMY

OMA Backlog of Maintenance and Repair (BMAR)



CONCERNS

We, in the Army, are working hard to embrace our role as good stewards of the resources appropriated to us by the Congress. I believe that the budget I have outlined will support the priorities of the Army in the most cost effective manner. There are several areas however, that still need work. I would like to bring to your attention, some areas that cause me concern especially as we look towards FY 1990/91.

o The rising Backlog of Maintenance and Repair is the single biggest problem facing the FY 1990/91 OMA budget. By the end of FY 1990 we will have a backlog of $2.9 billion. When you talk to Commanders in the field this is one of their most pressing concerns. We need additional resources to curtail the unacceptable growth in BMAR. In the past, when Congress has provided us funds in this area, we, in good faith, put the dollars against our real property maintenance backlog. Facilities improved and the backlog came down. We are calling on your help again to alleviate this growing problem.

o Foreign currency fluctuation requirements remain an unknown in the year of execution. The budget is prepared at a Deutsche Mark/$ ratio of 1.75 to a $1. Hopefully, this will be sufficient to meet our needs.

o In this period of severe fiscal constraints, the removal of statutory and administrative limitations would increase our commanders flexibility in adjusting resources to meet our needs. This is especially true in the areas of Advertising; Moral Welfare and Recreation; Recruiting; Depot Maintenance; and Real Property Maintenance Activities. Commanders in the field need this flexibility to meet unexpected contingencies or to exploit opportunities. This will allow them to be even better managers.

CLOSING

I am optimistic about our Army. We have seen much improvement in the ways in which we manage our resources. Good stewardship is the key to fully utilizing the dollars that we are allocated. The OMA budget which I have briefly summarized in my statement, meets most of the Army's pressing needs. We have incorporated our management initiatives into the budget preparation to place our dollars where they are most needed and where they can be fully executed. As you can surmise, we could always use more funding. Given the fiscal realities of the defense budget reductions and the significant decreases in other elements of the Army budget, we feel that responsible use of these operating resources will allow us to maintain and support the Army's readiness posture.

We are often asked how does OMA equate to readiness so, I would like to close with an analogy of the OMA budget in terms of readiness. OMA is the ignition key and driver of the vehicle, readiness. We supply the fuel, repair parts and maintenance of the vehicle to keep it running. But, most importantly, we supply the drivers who turn the key. First, you must have quality soldiers. Our soldiers put the miles on the vehicles and fly hours in the aircraft. We must recruit and train quality individuals so they can perform. We must provide for their needs such as food, clothing, medical care, lodging and family support. We must give them the necessary roadmaps (skills and tools) to guide their way. We must groom and retain quality leaders to direct the soldier's path. Then, once soldiers' needs are met and they have the necessary tools, they can step behind the vehicle (readiness) and do their job. We ask for your continued support in this endeavor. Thank you.

Mr. **Murtha**. Mr. McDade?

DEPOT MAINTENANCE BACKLOG

Mr. **McDade**. Thank you, Mr. Chairman.

General, I am sorry to take you through this in your first appearance here because we are delighted to see you here and we have a high regard for what you do.

I want to talk to you about depot maintenance backlog.

In fiscal year 1990, the Army is budgeting for a $1.8 billion depot maintenance program and is anticipating a $445 million backlog. This backlog figure is an increase of 31.3 percent over the fiscal year 1989 level.

Additionally, since fiscal year 1984, the funding for depot maintenance has increased by 44 percent and the backlog has increased by 144.5 percent.

Why has there been such a tremendous increase in the backlog of depot maintenance?

General **Robles**. I think it is primarily related to the fact that during that same period, we have been modernizing the Army.

As we modernized the Army, a lot of systems that were with us before, the M-60 series tanks, the UH-1 helicopter, have remained in the Army inventory to be overhauled, in some cases modified and then redistributed to either reserve component units or other lower priority Army units;

So at the same time our equipment is getting older and requires more maintenance, the requirements for depot maintenance are also increasing because the modernizing systems have been out there six or seven years and are starting to need depot maintenance.

Mr. **McDade**. But readiness accounts are not being given the same kind of balance.

For example, the 1989 budget had a depot maintenance backlog of $205 million; the 1990 budget shows that the 1989 backlog is now estimated at $339 million—a 65 percent increase.

Since there was no change between the requested and appropriated amounts for depot maintenance, how do you explain the large increase?

General **Robles**. Sir, as you know, there are a lot of factors that impact on the final availability of funding for a particular program.

As I mentioned, the Army has taken a significant downturn in funding between 1987 and 1988 and again between 1988 and 1989 there is roughly a wash.

Mr. **McDade**. You didn't take it in depot maintenance though.

General **Robles**. In the depot maintenance accounts, as in all accounts, in those years we have had to absorb our share of the CHAMPUS shortfall, foreign currency shortfall, pay raise absorption and the like.

Anytime we have non-programmatic hits, everybody shares and depot maintenance unfortunately has shared. We have tried to protect it to the best of our ability.

Mr. **McDade**. Sixty-five percent is out of balance. We believe the Army has taken unbalanced hits on depot maintenance.

What equipment is not receiving its required maintenance? How has this affected readiness levels? Are any units not meeting their readiness ratings because of the depot maintenance backlog?

General **Robles**. To the best of my knowledge, I don't believe there are any units in the Army who are not meeting the readiness standards because of backlog of maintenance of equipment.

Currently in the Army backlog, we have items like the UH-1 helicopters, Bradleys that need depot maintenance work, radios, the PRC-77 series radios, Chaparrals, Dragons, and various pieces of communication equipment and other equipment.

Mr. **McDade**. It is not good management to carry over such backlogs.

General **Robles**. I agree. We would not like to carry that large a backlog, but unfortunately as we try to balance not only depot maintenance, but the rest of the program——

Mr. **McDade**. The ultimate consequence is readiness suffers.

General **Robles**. No question.

DEPOT MAINTENANCE AND SUPPLY OPERATIONS

Mr. **McDade**. As you know, our Surveys and Investigative staff has been looking into the relationship between the supply side and the depot maintenance side of Program 7.

Based on preliminary results of the S&I work, it appears that large sums of depot maintenance funding have been used to support supply operations.

Since 1985, the Army has reduced depot maintenance funding by $706 million and has increased supply operations by $751 million.

In other words, the budget request and the money Congress has added over the years for depot maintenance has not been used for depot maintenance at all, but for supply operations.

In fiscal year 1989, this committee recommended that there should be a "fence" placed around supply operations and depot maintenance, separating them because we are concerned about this reprogramming or "migration" of funds.

The Army opposed our recommendation, stressing its need for flexibility and ultimately the "fence" on supply operations was withdrawn.

Based on the preliminary data provided by the S&I review, do you agree that funding has "migrated" from depot maintenance to supply operations?

General **Robles**. Sir, there is some funding that has, by necessity, migrated over to the supply account.

Mr. **McDade**. Hundreds of millions of dollars, large sums of money.

General **Robles**. Yes, sir.

Mr. **McDade**. Let me ask you, does your need for flexibility—that is the words that not you but your predecessors used before the Committee when asking us not to put a fence on depot maintenance—mean that you can underfund supply operations banking on a migration of depot maintenance money?

General **Robles**. You are talking to a guy who just came out of the field as a troop commander, but in my previous assignment in the building I worked in a related area in the prioritization business. It has never been the Army's position, to consciously underfund the supply account, including central supply and transportation, with the expectation that we would migrate funds from depot maintenance.

I need to put things into perspective. The flexibility that we have asked for is because we have difficult challenges ahead of us. We do not have adequate funding and we must maintain the balance between readiness and sustainability. There is an absolute linkage between the supply account and the maintenance account.

You cannot have one fully funded and the other one with a big hole in it. The central supply account is 70 percent people, which means that you feel the pain immediately when you have an underfunding in the central supply account. The money that has migrated, has been only when there is a critical shortage in the supply account, but not a conscious decision on anyone's part.

Mr. McDade. Since 1985, the underfunding is $751 million. That is not petty cash. That is somebody making decisions somewhere that are inexcusable. That is somebody recognizing that they can get money, that we are going to treat you nicely, so somebody figures out they can take $751 million since 1985 and migrate it from one part of the account to another.

That is unsound management all the way through. That is almost a billion dollars.

Nobody can justify that and we have a reprogramming here at the time when funds for depot maintenance are being stripped out and put into supply, here is a request for the Committee to reprogram money——

Mr. Dicks. They needed the money for supply.

Mr. McDade. Carry back the message. You are a fine officer. I am sorry that it is you I have to talk to.

This has been going on for some time. Take the message back that the party is over. We are not going to let these funds be migrated from one account to another.

Mr. Murtha. Mr. Dicks?

O&M FUNDING IMPLICATIONS

Mr. Dicks. Thank you.

I occasionally get to visit I-Corps at Fort Lewis and they have told me that their annual budget for operations has been coming down.

Is that correct?

General Robles. Yes, sir.

Mr. Dicks. What are the implications to that? Does that mean there is going to be less money there for training? You said you have been out in the field. Tell us some of the things that happen when we see O&M funds reduced.

What are the things that happen in terms of training and keeping up your equipment and things of that nature?

General Robles. Yes, sir.

As a matter of fact, the Deputy Commander at Fort Lewis, General Greenway, who used to be Chief of Staff there just became our Assistant Deputy Chief of Staff for Operations. We talked about the funding shortfalls that we have in our units today, which have precipitated because we took a rather drastic downslide from the 1987 funding level to 1988 and from 1988 to 1989 it is a wash.

In the first year, in 1988, when we first took the big drop, I was out there as a troop commander. There are certain things you try to adjust and you try to live within the levels. But, when you have two years back to back in which you have severely restricted funding levels, you start to have readiness shortfalls.

We think we are adequately funded to maintain essential readiness. We need to maintain the level of funding we are at because if we start to take more, we cannot maintain readiness.

When we took——

Mr. DICKS. When you talk about readiness in a generic way, what are the kinds of specific things that you have to reduce or eliminate or change?

General ROBLES. Let's talk in the training account, in the operating account for training.

When you take a downturn in that account, you have less money available to buy the petroleum, oil, and lubricants—POL—the repair parts, the supplies that are necessary to train the units to the proficiency that we need to train.

When I was a commander and we took a large funding decrement it started to show up in the number of times I could take my unit out in the field to train.

In central supply, to follow Mr. McDade's questioning, even though we would like not to take a penny out of depot maintenance or central supply, when you take a downturn, the money has to come from somewhere. It is exacerbated by foreign currency problems, or not being adequately funded for the CHAMPUS mission.

The money has to come from somewhere, so we decrement the supply account. This means the pipeline grows. There are less days for you to get your repair parts, so you can fix your equipment and maintain training readiness.

Probably the most serious part of reductions are felt in the base operations and real property maintenance accounts, in my view, because the infrastructure on a base supports the soldier and his family. When you take a downturn, it impacts. We don't have enough money to do some of the base operation functions and that will degrade the readiness and the training in the Army.

Mr. DICKS. This gets into real property maintenance, too?

General ROBLES. Absolutely, sir.

Mr. DICKS. So you don't paint the buildings, you don't do the basic repair and things deteriorate?

General ROBLES. You defer equipment maintenance. You defer the backlog of real property maintenance that needs repairing and that is also growing $2 billion in 1989 to over $3.4 billion by the end of 1991 because of the lack of funding.

Mr. DICKS. You also said that you reduced the CHAMPUS acount?

General ROBLES. No, sir.

Mr. DICKS. Increased it?

General ROBLES. CHAMPUS has been increasing as a reflection of the inflationary rates in the civilian sector as well as in the whole world of health care.

When you budget a certain rate and you have an increase in cost that shortfall has to be made up somewhere. Generally, we have to reprogram within the O&M account to make that shortfall.

Sometimes we get help from OSD or other sources, but we are always part of the solution. We always have to fix part of our own problem so that erodes money from other accounts, the backlog of maintenance account, and the backlog of real property account.

Mr. DICKS. That is all I have.

OPERATING TEMPO

Mr. MURTHA. Let me ask you about the tanks.

You just came from the field. It says in our information the Army needs to run their tanks 850 miles. I assume that is a year in order to keep them ready at C-1 or C-2.

General ROBLES. Yes, sir.

Mr. MURTHA. Is that First Cavalry that you are with?

General ROBLES. I was with the Big Red One, the First Infantry Division.

Mr. MURTHA. So you only have enough money in there for 800 miles, so what does that mean?

General ROBLES. Sir, that is a question that has been asked many times.

If I may quickly say that we have been trying for a long time to come up with a quantitative factor to have an input/output sort of relationship between resources and readiness.

The Army developed the OPTEMPO model, the readiness model saying, given the number of required training events, tanks and Bradley fighting vehicles and artillery pieces must participate in, how many miles must that equipment run to do the required training events to maintain readiness.

We have banded it in readiness bands. C-1, that is a well-trained unit which should operate its pacing items, the M-1 tank, for example, between 800 and 850. Eight-hundred fifty is optimum. Within that band, you are within the C-1 and beginning to get into the C-2 band. When you drop down, you drop to the C-2/C-3 level which means you are starting to have an impact on readiness.

Mr. MURTHA. You have more accidents or what?

General ROBLES. You do not have the resources to buy the repair parts and the fuel to go to the field, or to go to home station training and do the required training events to maintain proficiency.

I have to have my soldiers fire the artillery piece to maintain proficiency.

Mr. MURTHA. You are starting to cut back now. You were out in the field, you were blaming these guys in Washington, now you are here making the decisions and you are cutting those guys.

General ROBLES. That is a function of the plate that I was handed.

Believe me, I have tried very hard to maintain readiness because I did just come from the field and I sympathize with the soldier in the field. The last thing I want to do is cut back their training resources. We believe we have adequate resources to maintain readiness between C-1 and C-2.

Mr. MURTHA. It is going to be a tough year.

General **Robles**. It is.

Mr. **Dicks**. It is getting tougher, that is the worst part.

EXTENDED COLD WEATHER CLOTHING

Mr. **Murtha**. Recently, we took a trip to Yellowstone to see the extent of the fire damage, and I said, "Let's try out the Army's cold-weather gear." When we got there, we tried on the Army's gear and some of us put on the Park Department's cold-weather gear.

I was able to get halfway through the trip. Colonel Horner who was with us froze the whole way through. He made it all the way with what I consider inadequate cold-weather gear. Is Gortex the type of cold weather gear your troops wear?

General **Robles**. It is called Gortex-type clothing. I don't know the particulars of what you were wearing, but in order for you to get the full benefit, you must wear the whole system. You must have the underwear and Parka and you must layer yourself. The cold-weather gear lets your skin breathe and sweeps off the moisture.

Mr. **Murtha**. Did you ever use this?

General **Robles**. Yes.

Mr. **Murtha**. Does it work?

General **Robles**. Yes, sir.

Mr. **Murtha**. Somebody told me it has a four- or five-year shelf life.

General **Robles**. To the best of my knowledge, it does not lose its properties on the shelf.

Mr. **Murtha**. It has the ability to repel water. If it has been on the shelf or in use for four or five years, does it lose its ability to repel water?

General **Robles**. To my knowledge, it does not, but the longer it sits on a shelf through dry rotting——

Mr. **Murtha**. They were talking about it loses some of its properties, that out in the field it seems to lose some of its properties?

General **Robles**. I wore mine quite a bit at the National Training Center and other places and I never had a problem with my gear.

Mr. **Murtha**. Where is the training center?

General **Robles**. Fort Irwin, California.

It can get wind chill factor below zero and it can rain. The sun can shine and it can snow all in one day.

Mr. **Murtha**. Did it repel the water?

General **Robles**. Very well. I used to use the Parka with a sweater and polypropene underwear and I was warm.

Mr. **Murtha**. How long did you wear it?

General **Robles**. As long as I could stand it.

Mr. **Murtha**. Until you got cold?

General **Robles**. I was warm.

Mr. **Murtha**. Are you still buying this material?

General **Robles**. Yes, sir. In fact, we are in the process of purchasing—right now in the budget, we have $15 million budgeted and programmed in fiscal year 1989 to buy it. I am working to get an additional $5 million through internal programming and we are looking for options to fund even more because of the benefit to the soldier with the cold-weather clothing.

Mr. MURTHA. That is pretty expensive stuff.

General ROBLES. Yes, sir, but it is the best thing on the market for training.

Mr. MURTHA. Mr. Dicks?

REFORGER EXERCISE

Mr. DICKS. I notice that on the question of the REFORGER exercise that that has been cancelled or restructured.

General ROBLES. Yes, sir.

Mr. DICKS. Can you tell us why?

General ROBLES. Yes, sir.

The original plan had a REFORGER 1989 scheduled for the September-October time frame of 1989. The 1990 REFORGER was scheduled for January-February of 1990. That is normal. We have a fall REFORGER and a winter REFORGER and I participated in both.

Given that the two were so close and given that the Army is attempting to come up with what it calls an enhanced REFORGER program which will allow us to have more headquarters—both major and intermediate—participating, the decision was made to cancel the 1989 REFORGER. There are two major things that an exercise gives you. It lets you completely test your ability to mobilize, deploy the force and all the logistics that go with it, getting a force from the continental United States to Europe on a rapid basis. It also allows you to fight in terrain that may be where you might fight if a war started there.

The downside of that is it required a lot of maneuvering in Germany. The REFORGER program still allows you to control the command and control function, the deployment function, all the logistics, and you get more headquarters involved and mobilize more soldiers in the field.

The restructure of the REFORGER allows you to do that and we have taken part of the money that was allocated, a total of $24.2 million allocated in fiscal year 1989 for REFORGER to do several things. $9 million of that was used to redeploy the REFORGER 1988 troops. About $5 million was used to do an exercise called Caravan-guard, which is a corps level exercise which will let us test this enhanced REFORGER program, see if it will work, and see how we can get more joint operations going. A residual piece of $3.7 million was reallocated to other Army JCS exercises. Finally, we are trying to buy some long-lead requirements for REFORGER 1990.

The long and short, sir, is that we believe that under the new program we will have more people participating, have less field training, involve more command and control and more leader and logistical training at a lower cost.

NATIONAL TRAINING CENTER

Mr. DICKS. Okay. You mentioned the National Training Center.

General ROBLES. Yes, sir.

Mr. DICKS. Do you have anything to do with the decision that will be made about a new joint training center for light divisions?

General ROBLES. No, sir. The center is operating out of Fort Chafee, Arkansas, and Little Rock Air Force Base. It is up and running, as a matter of fact.

Mr. DICKS. There is supposed to be a new competition.

General ROBLES. Yes, sir.

A final decision has not been made about where that will ultimately reside.

Mr. DICKS. Who is going to make that decision?

General ROBLES. The Secretary of the Army and the Chief of Staff of the Army.

Mr. DICKS. I am told that they are now doing less off-base training as well because of the cutbacks in O&M funds.

Is that correct? In other words, where you might be able to take your division and go somewhere else and train, now they are eliminating part of that because of funding cutbacks.

General ROBLES. I would say that generally speaking, that would be true. When you do off-post training, it requires transportation funding to either take trains, buses or airplanes to get the troops and equipment to wherever you are going to train. As you cut back proportionately that part of the program will also be cut.

Mr. DICKS. Do people like the exercises?

General ROBLES. Yes.

In the command business, I would say that soldiers like to train. They like to be busy and train and do what they came in the Army to do. Anytime you cut back the level of training it affects the soldier because he does not like to sit around. So from that perspective, yes, although we don't have any serious morale problems, you like to keep the soldiers at a high pitch of readiness and a high state of morale.

Mr. DICKS. Thank you.

Mr. MURTHA. We have other questions for the record. Thank you very much, General.

General ROBLES. Thank you. It was my pleasure.

Mr. MURTHA. The committee will adjourn until 10:00 a.m. tomorrow.

[CLERK'S NOTE.—Questions submitted by Mr. AuCoin and the answers thereto follow:]

DEFENSE ENVIRONMENTAL RESTORATION ACCOUNT (DERA)

Question. The Army has some extensive environmental restoration costs over the next few fiscal years. Several of the bases where environmental restoration will be needed are on the base closure list. I notice in your prepared testimony that funding for environmental work is zeroed out. Is this account used for environmental restoration work? If so, how do you plan to ensure that the necessary environmental work at the base closure sites and other sites not on the closure list are adequately funded?

Answer. Funding for Environmental Restoration is appropriated in the Environmental Restoration, Defense (transfer) appropriation. Funds are transferred to the Services during the year of execution. Therefore, the Army Environmental Restoration account in the Operation and Maintenance, Army appropriation only reflects funds for the current fiscal year. The President's Budget for Environmental Restoration (including the Army program) is presented in the Environmental Restoration, Defense appropriation.

Much of the restoration costs associated with the base closure/realignment program will be eligible for funding from the Environmental Restoration, Defense appropriation. However, the Army endorses Department of Defense policy that the Environmental Restoration Program will continue to allocate available funding on a worst-first priority basis. Restoration costs for base closure/realignment activities will compete with other environmental restoration efforts such as National Priority List sites cleanup.

Question. I'm especially concerned that the environmental work at the closure sites be funded adequately. How does your budget address that issue?

Answer. As I stated previously there are two funding answers available to ensure that the environmental work at the base closure sites are funded adequately. The first is the Environmental Restoration, Defense appropriation. Restoration costs for base closure realignment activities will compete with other environmental restoration efforts, such as the National Priority List sites cleanup, on a worst-first priority basis and secondly environmental restoration costs not considered critical for DERA funding will be funded from the Base Closure Revolving Fund.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin. Questions submitted by Mr. McDade and the answers thereto follow:]

ARMY COMMUNICATION-ELECTRONICS MAINTENANCE

Question. Army communications and electronics (C–E) maintenance will be streamlined with the recommendation of the Commission on Base Realignment and Closure to close the Lexington Army Depot. What schedule has the Army established for implementing the transfer of C–E maintenance activities from Lexington to Tobyhanna Army Depots?

Answer. The Army is establishing a schedule for the communications and electronics maintenance transfer to Tobyhanna. The projected detail plans for the transfer will be completed in September 1989.

Question. Which maintenance functions will be transferred from Lexington to Tobyhanna?

Answer. Communications and electronics maintenance (organic and contract) and the Communications Security (COMSEC) maintenance will be transferred from Lexington to Tobyhanna.

Question. What are the associated manpower increases projected for Tobyhanna as a result of these transfers? When will these workload increases be implemented?

Answer. The Commission Report in the DOD Press Release had 24 military and 410 civilian spaces transferred to Tobyhanna. Until the implementation plans are approved, this number is reasonable. The increased workload changes will also be developed during implementation.

Question. What changes (new construction, expansion of existing facilities, etc.) will be required at Tobyhanna to absorb the workload from Lexington?

Answer. The commission report contained a $24 million MCA requirement for Tobyhanna to absorb the transferred workload. This figure, along with all the Army's MCA requirements, is being refined and an accurate number will be available by mid-July 1989.

Question. What funding amounts, by fiscal year and purpose, are estimated to be needed to carry out the transfer of function from Lexington to Tobyhanna?

Answer. Funding will be required to cover permanent change of station, movement of supplies and equipment, and start up costs at Tobyhanna. A detailed financial mangement plan for base closure/realignment is being developed by each affected activity. It is scheduled for submission to the Department of the Army Headquarters on 1 September 1989. This information should be available to the Congress after Agency and Office of the Secretary of Defense review.

Question. There is a government-owned, contractor operated (GOCO) maintenance operation carried out at the Lexington Army Depot. The committee is advised that the Army, in implementing the Commission's recommendations to close the Lexington Depot, will also terminate the GOCO operations. What are the Army's plans in this regard?

Answer. The Army will terminate the contractor operations by the end of fiscal year 1992. The communications and electronics maintenance function will transfer to Tobyhanna.

Question. Will the functions and workload carried out at the GOCO also be transferred to Tobyhanna? If so, provide the information for transfer of the GOCO functions requested in the questions above.

Answer. The communications and electronics maintenance function will transfer to Tobyhanna. Projected transfer periods will be developed for the implementation plan due in September 1989.

Question. The Committee is advised that the current contract for operations at the Lexington GOCO expires at the end of fiscal year 1989. Is this true? Does the Army plan to not renew the contract for the GOCO, whenever it expires, as a result of the closure of the Lexington Army Depot? If not, why not?

Answer. The current contract expires at the end of fiscal year 1989. The Army will maintain a contract operation at Lexington through end of fiscal year 1992. The Army will not guarantee a level of workload.

EXTENDED COLD WEATHER CLOTHING SYSTEM (ECWCS)

Question. The report which accompanies the fiscal year 1989 DOD Appropriations Act directs the Army to procure not less than $50 million of Extended Cold Weather Clothing (ECWCS) stocks in fiscal year 1989. Additionally, the conferees directed the Army to procure $40 million of these stocks in fiscal year 1990. What is the status of the Army's 1989 purchase? Does the Army plan to purchase at least $50 million of ECWCS stocks in 1989?

Answer. Due to severe funding constraints the Army cannot afford to spend $50 million on ECWCS. In fiscal year 1989, the Army plans to spend $15 million; and contingent on the availability of funds, the Army will attempt to put an additional $10–$15 million against this program in fiscal year 1989.

Question. Does the fiscal year 1990 budget request include $40 million in procurement funding to purchase the required stocks in 1990?

Answer. The Army is planning to spend $10 million for ECWCS in fiscal year 1990 in order to sustain the stocks issued through fiscal year 1989. The Army recognizes that this does not reconcile with the funding level suggested in Congressional guidance. However, the Army simply does not have adequate funding to procure additional quantities of ECWCS and at the same time respect the higher priorities accorded the other organizational clothing and individual equipment needs. The other needs have a more direct impact on readiness by enhancing the individual soldier survivability and sustainability on the modern battlefield.

FISCAL YEAR 1990 BUDGET AMENDMENTS

Question. The fiscal year 1990 budget request for Army O&M is $24.3 billion, 35 percent of the Army's total budget request. This is a $1.2 billion (5.3 percent) increase over the fiscal year 1989 enacted level and represents real growth of approximately 2 percent.

The new Administration has proposed no real growth in the 1990 Defense Budget. For O&M, Army this would mean a reduction of approximately $24 million. What will be the effect of this policy on Army O&M? Will readiness levels be reduced?

Answer. The New Administration proposal of no real growth applies to the entire Defense Budget and not each of its specific parts. The Department is currently in the process of determining exactly how the reduction will be taken. There are many alternatives being discussed. To my knowledge, none propose a no growth policy for each appropriation. Near term readiness is a high priority of the Army; the Secretary and the Chief of Staff are committed to maintaining the current high levels of readiness in the Army. I would not expect fiscal year 1989 reductions to be applied directly against readiness.

Question. Have you determined how you will apply the reductions? Has the Army considered a reduction in the size of the force as a way to meet the proposed reductions?

Answer. The decisions on exactly how the reductions will be taken are currently underway. The final decisions have not yet been made.

Many options are being considered by the Department. It would be premature for me to speculate on possible alternatives at this time. However, I can say that the Department of Defense and the Army have conducted a comprehensive review of its entire budget and examined numerous alternatives.

Question. What kind of O&M "tail" is experienced with a reduction in military personnel? For the record, please provide the percentage of O&M that is considered the "tail" and could be reduced for each 1,000 military personnel.

Answer. The effect of a reduced force structure on OMA depends on the nature of the structure change, the timing, the type of unit and its location. Common impacts include:

Base operations support. The dollar impact of a base operations support reduction will depend on the impact of structure action on overall base operations, such as, base closure versus change in variable support requirements.

Unit operating tempo and maintenance. Unit operating tempo will decrease appropriately but may be offset by increased maintenance costs related to the transfer of equipment to other units, including the Reserve Component.

Transportation. The unbudgeted increase in second destination transportation costs will also create a first and second year bill.

As the above impacts indicate, it is reasonable to assume that most force structure actions will not realize any significant OMA savings until the second year.

O&M AND GRAMM-RUDMAN-HOLLINGS

Question. If the federal deficit is greater than projected, DoD will experience a sequestration of funds in order to bring spending in line. If the deficit is as high as $146.2 billion and the military personnel accounts are exempted, DoD could expect as great as a 19.3 percent across-the-board reduction. If the military personnel accounts are not exempted, there would be an 11.8 percent reduction. We all know that this kind of reduction for O&M will be devastating. In your opinion what would be the effect of a 19.3 percent—a $5.2 billion—reduction in the Army's O&M budget?

Answer. For O&M, sequestration would be at appropriation level. Given the short time to react, variable costs would have to be eliminated. Operating Tempo and Direct Support/General Support maintenance would be drastically cut—unit readiness would fall to C-4; Real Property and Depot Maintenance would be drastically cut—backlogs would skyrocket; medical support would be inadequate; intelligence, communications, automation, and administrative support would come to a virtual halt. Such reductions would have severe impact on the Army's civilian employees. There would be early retirements, hire-freezes, and major furloughs. The Army would be consumed in managing the reductions.

Question. Based on this result, do you believe that the military personnel accounts should share in the sequestration to lessen the impact on the O&M account (this would mean an 11.8 percent—$3.2 billion—O&M reduction)?

Answer. The Military Personnel, Army appropriation could not take a full share of an 11.8% Gramm-Rudman-Hollings reduction. Since the appropriation is tied almost exclusively to pay of personnel, any required reduction in dollars would necessitate an end strength cut. In this case about 140,000 soldiers would have to be cut from the force; 85,000 by reduced accessions and 55,000 by reduction in force (RIF). Such a reduction would seriously affect manning, morale and readiness for years. This does not mean that the military pay accounts could not absorb some of the decrease, but not a full share.

Question. Would your O&M budget which has been reduced by $5.2 billion be capable of adequately supporting the Army's current force structure?

Answer. It could not and still maintain the required near term readiness requirements of the Army.

O&M AND THE READINESS FACTOR

Question. O&M is often called the "readiness account" due to the linkage between the items funded with O&M (training, flying hours, depot maintenance, etc.) and the ability of the Services to meet their readiness goals.

For the Army, one of the main factors used to determine overall readiness, is Operating Tempo (OPTEMPO). OPTEMPO represents many items, but is closely aligned with the number of miles per tank, per year, that is used to train armored battalions.

To maintain C1/C2 readiness, the Army requires 850 miles per tank. The fiscal year 1990 budget only supports 800 miles per tank.

In fiscal years 1986, 1987, and 1988, the Army did not execute 850 miles per tank. Based on this, how valid is the Army's requirement of 850 miles?

Answer. The Army continues to examine and refine the OPTEMPO concept. Our analysis indicates that within a "band" of 800 to 900 miles for an M1 tank, we can expect a tank battalion to have sufficient resources to achieve C1 or C2 level of training readiness if all other training considerations remain constant. The Army believes that the band of 800-900 miles accurately describes the resource requirement to achieve a C1 or C2 level of training readiness. Recently, the Army has developed over 170 Battalion Level Training Models which analyze the miles/hours required to support training strategies that forecast various levels of training readiness in different type battalions and separate companies.

Question. Was there an impact on the Army's readiness levels in fiscal year 1988 when the Army executed only 725 miles per tank? If so, please be specific.

Answer. As resources were constrained in fiscal year 1988, training readiness for the 31 active major combat commands (divisions, separate combat brigades/regiments and Special Forces Groups) decreased. Commanders reporting "training" as the primary reason for not attaining their authorized level of organization (ALO) increased by 175% (4 to 11) during fiscal year 1988. Over 50% of all major combat commands cited "insufficient funding" as the primary reason for not attaining C1 in training. During this same period, commanders reporting funding as a resource constraint to training increased from 10% to a high of 55% in June 1988 and ended the year at 30%. With the additional training funds in fiscal year 1989, training readiness for the first quarter of fiscal year 1989 has improved for the 31 major combat commands. Units reporting C1, C2 or C3 have returned to the October 1987 levels—the best month in fiscal year 1988. The number of units reporting training as the primary reason for not attaining ALO has decreased from 11 to 8 units with only one unit reporting "insufficient funding". Commanders reporting funding as a constraint to training has remained constant for the first quarter at 30%—in large part, the result of drawing down stocks of repair parts and other items during fiscal year 1988.

Question. If the Army is required to reduce the size of its force, will the total number of tank miles be reduced?

Answer. If force reductions were applied to units equipped with tanks, the total number of tank miles would be reduced. The average mileage requirement per tank, which OPTEMPO represents would remain the same.

O&M REAL GROWTH AND THE FUTURE

Question. A recent CBO report stated that O&M and Military Personnel costs, also known as operation and support (O&S) costs, must experience at least a 2.3 percent real growth a year to support new equipment entering the force. Additionally, CBO stated that there are three general approaches to hold down these costs: reduction of military forces, efficiencies, and acceptance of readiness reductions and risks. Based on CBO's remarks and the new administration's policy for no real growth, what is the future for Army O&M?

Answer. The Army shares the concerns of CBO on the real growth requirements for OMA. In addition to the O&S costs associated with force modernization, we are concerned with the rising cost of medical care and the growing costs of maintaining our facilities and equipment. The Army is examining all these areas and seeking ways to increase efficiencies and better ways of doing business. The growth in OMA is the result of past decisions in procurement and other policies. Fundamentally, OMA will have to grow to execute decisions made in the past. In reference to the no growth policy, it applies to the entire Defense budget and not to each of its components. OMA may have real growth while other appropriations have negative growth.

Question. In your opinion, do you believe that the 1990 budget, as amended, will require the Army to accept readiness reductions and risks?

Answer. The final decisions on the fiscal year 1990 budget have not yet been made. The decisions are not expected for several weeks. However, the Army has made every effort to protect readiness during the budget process.

Question. In your opinion, are there any new programs that could be implemented in 1990 to improve efficiencies and reduce O&S costs without seriously reducing readiness?

Answer. As resources become more constrained, commanders must have the flexibility to make the maximum use of their limited resources. For too long the Department, the Congress, and intermediate headquarters have attempted to impact policy by placing restrictions on how commanders spend their funds. In many ways this has hamstrung commanders. The Unified Budget Test has clearly indicated that commanders can make better use of their resources, attain readiness, and accomplish essential missions when restrictions are lifted. The Army is in the process of removing the restrictions it has placed on the field and we will be requesting your help in removing restrictions the Congress has put in place.

Question. In addition to reducing military forces, would the Army consider a reduction in the civilian workforce?

Answer. Since the fiscal year 1989/1990 President's Budget, significant dollar reductions have caused the Army to reduce its civilian work force by approximately 12,000 civilians. New missions, transfer of functions from other Services, and the realignment of command priorities have added to the Army's total force structure, but have not lessened the mission impact of the overall civilian strength reduction. Further reductions in the civilian work force without the identification of programmatic workload decreases will severely impact on the command's ability to support current mission requirements and quality of life programs within the Army. As it stands, the Army is concerned about how the civilian reductions will affect the role of the soldier in its current operations. Since support functions were not decreased, the option to use borrowed military manpower to keep programs functioning is very likely.

DEPOT MAINTENANCE BACKLOGS

Question. In fiscal year 1990, the Army is budgeting for a $1.8 billion depot maintenance program and is anticipating a $445 million backlog. This backlog figure is an increase of 31.3 percent over the fiscal year 1989 level.

Additionally, since fiscal year 1984, the funding for depot maintenance has increased by 44 percent and the backlog has increased by 144.5 percent. What equipment is not receiving its required maintenance? How has this affected readiness levels—are any units not meeting their readiness ratings because of the depot maintenance backlog?

Answer. Examples of the fiscal year 1989 backlog follows:

Aircraft—UH-1, CH-47D, AH-64.

Combat—M110A2, M578, M113A1/A2, Bradley Fighting Vehicle System.

Missiles—CHAPARRAL and HAWK.

Other—PU 618 Generator.

The Army policy is to place funding priority on secondary items (engines, transmissions, etc.) because they are field replaceable and have the greatest effect on readiness. Therefore, the depot maintenance backlog is composed almost exclusively of end items such as those listed. End items would affect readiness if units were short an authorized item and the reason for the shortage was due to it being in the depot maintenance backlog awaiting funding. We have checked unit readiness reports and found that none of the listed items are currently degrading near term readiness.

Question. Are the field activities pushing work from intermediate maintenance into depot maintenance as a way of meeting budget constraints?

Answer. Yes, we have seen an increase in passback from the field that was caused in part by budget constraints. Cuts in the General Purpose Forces account (P2) and installation maintenance personnel reductions limited the amount of work that could be accomplished in the field. We are pushing initiatives to improve compliance with maintenance standards in the field and to stop passing unit level maintenance to a higher level.

Question. What are the short term and long term effects of carrying such a large backlog of depot maintenance from one year to the next?

Answer. The short term effect is deferred maintenance on equipment which was scheduled for overhaul repair, and/or modification. This places an additional burden on field units to continue maintaining the equipment that is in their hands until it is funded for depot work. The more significant effect is felt in the long term, for as such delays occur, the sustainability of equipment gradually erodes as it awaits depot maintenance.

DEPOT MAINTENANCE AND SUPPLY OPERATIONS

Question. The Committee's Surveys and Investigation (S&I) staff has been looking into the relationship between the supply side and the depot maintenance side of Program 7.

Based on preliminary results of the S&I work, it appears that large sums of depot maintenance funding have been used to supply support operations. Since 1985, the Army has reduced depot maintenance funding by $706 million and has increased supply operations by $751 million. In other words, the budget request and the money Congress has added over the years for depot maintenance has not been for depot maintenance at all, but for supply operations.

In fiscal year 1989, this Committee recommended that there should be a "fence" placed around depot maintenance, separating it from supply operations because we were concerned about this reprograming or "migration" of funds. The Army opposed our recommendation, stressing its need for flexibility and ultimately the "fence" on supply was withdrawn. Considering the serious backlogs in depot maintenance, why has the Army allowed this to happen?

Answer. Because of the limited flexibility in the Supply program and other high priority OMA requirements (i.e. CHAMPUS, Foreign Currency), deferring end item overhaul-repair was necessary. In fiscal year 1988, congressional language prevented the furlough of civilian personnel significantly contributing to the difficulty in executing the Central Supply program. The Army has made a concerted effort to find other sources of funding for Supply in an attempt to protect Depot Maintenance funding.

Question. For the record please provide the FY 1989 budget request, appropriation, and current estimate, and the FY 1990 budget request for depot maintenance, and note which Program 7 subcategories fall under depot maintenance. Additionally, please provide the FY 1989 budget request, appropriation, and current estimate, and the FY 1990 budget request for supply operations, and note which Program 7 subcategories fall under supply operations.

Answer. FY 1989 and FY 1990 depot maintenance funding is as follows:

[In millions of dollars]

	Fiscal year 1989			Fiscal year 1990 estimate
	Request	Appropriation	Current estimate	
Total Depot Maintenance [1]	2,455	2,435	2,422	2,568
Total Central Supply [2]	3,574	3,639	3,683	3,937

[1] The subcategories of depot maintenance are Modernization, Other Depot Maintenance, and Maintenance Support Activities.

[2] Central Supply subcategories are as follows: Supply Activities, Logistic Support Activities, Transportation Management and Overseas Ports, Industrial Preparedness Operations, Transportation, Resale Commissaries, Base Operations, Real Property Maintenance, and Industrial Fund and Stock Fund Support.

DEPOT MAINTENANCE VS. FIELD MAINTENANCE

Question. In fiscal year 1988, the Army began shipment of 470 M1 tanks from Europe and Fort Hood to Anniston Army Depot to be refurbished for transfer to the National Guard. Required inspection and repair is usually performed by the maintenance units of the armored divisions. However, in this case the tanks were shipped to the Depots without the standard field level maintenance being performed. What was the reason for shipping the tanks to Anniston for more expensive depot level maintenance when the work performed was really field-level maintenance?

Answer. The primary reason for performing intermediate level maintenance at Anniston was to meet scheduled force modernization fielding plans for the National Guard and limited manpower operations in the field. A supportive factor of this decision was the desire to stabilize the workload level at the depot.

Question. Since field-level maintenance is funded in the General Purpose Forces account (P-2) and depot maintenance is funded in the Depot Maintenance account (P-7), was there a shifting of funds from P-2 to P-7 to accommodate this work? If not, did the $49 million cost for depot maintenance contribute to the 1988 backlog?

Answer. In fiscal year 1988 Program 7 did not obligate any of its funds to support the 10/20 intermediate level maintenance workload. USAREUR transferred $2.3 million and FORSCOM transferred $2.25 million to Program 7 as a reimbursable cost. As Program 7 did not obligate any funds for the 10/20 intermediate level workload there was no affect on the fiscal year 1988 depot maintenance backlog. The $49 million referenced above is for fiscal year 1989 and will impact on fiscal year 1989 backlog as this was not funded on a reimbursable basis.

Question. Will the depot maintenance of these 470 M1 tanks continue into fiscal years 1989 and 1990? If so, does the depot maintenance budget include the cost of this work?

Answer. Based upon critical shortfalls in P-2 mission funding and requirements to meet fielding timelines associated with force modernization, some intermediate level maintenance will continue to be performed in depots in fiscal year 1989 as an exception to policy. Since intermediate level maintenance performed at depots will be funded on a reimbursable basis from P-2 missions funds in fiscal year 1990 and out, these requirements are not included in the depot maintenance budget.

Question. Was the shortage of heavy equipment workload at the depots a major factor in sending these armored vehicles to Anniston for maintenance? If so, what are the Army's plans for Anniston after the work is completed?

Answer. Although the primary factors for these decisions centered on mission funding constraints and fielding date timelines, the capacity and capability of Anniston to handle additional work was a concern in the decision. Requirements for legitimate depot maintenance at Anniston Army Depot is declining and the potential exists for under utilization at the depot in fiscal year 1990 and fiscal year 1991. To counter this, the Depot Systems Command is diligently working on possible options. At this point, however, an acceptable option has not been identified. We will continue to develop alternatives to rectify this problem.

REAL PROPERTY MAINTENANCE

Question. The fiscal year 1990 budget request includes a $1.7 billion request for real property maintenance funding, a 17.8 percent increase over the 1989 funding. Even with this increased level of funding, the Army is still anticipating an increase of 36.7 percent in the backlog, anticipating a $3 billion backlog in 1990.

Since 1984, the funding for the Army's real property maintenance requirements has increased by 14 percent while the backlog has increased by more than 90 percent. What is the reason for the increasing level of real property maintenance backlogs?

Answer. The reason for the increasing level of real property maintenance backlogs is a simple one: funding does not meet annual recurring requirements. Funding is approximately 82 percent of requirements in fiscal year 1990 and 85 percent in fiscal year 1991. It should be pointed out that when costed in fiscal year 1990 dollars the BMAR dropped $1.1 billion between fiscal year 1984 and fiscal year 1987 because of funding. Subsequent to fiscal year 1988 maintenance and repair funding has been reduced to pay for other Army initiatives. The result being a corresponding rise in BMAR.

Question. What are the long term and short term effects of carrying such a large amount of backlog maintenance each year?

Answer. Without adequate funding the Army's real property suffers dramatically in a short period of time. Preventive maintenance cannot be adequately performed and facilities deteriorate at an accelerated rate. "Patch and Fix" becomes the norm and long delays in repairs to living and working places for the soldier and his family begin to affect the morale and readiness and eventually have an impact on soldier retention.

As this mode of operation continues the entire Army infrastructure is affected. Facilities will continue to deteriorate at a rapid pace, new facilities coming on line cannot be adequately maintained, underground utility systems will continue to deteriorate with potential serious impacts on the environment (such as ground water contamination), and poorly maintained heating and electrical systems will become safety hazards and cause increased energy consumption.

Question. Does the Army verify the backlogs each year and do these verifications include a review of installations on the base closure list?

Answer. Valid BMAR projects are annually scored and ranked in priority order by each installation to reflect their degree of need and the resource impact. Scoring is usually accomplished through a weighted average process. Projects having an impact on the quality of life of the soldier and unit readiness are given the highest priority of accomplishment. Each Major Command (MACOM) then develops the acceptable level of criticality below which projects may be deferred. Projects are logically deferred for reasons such as pending stationing or mission change decisions, possible future funding through other programs, or the need for project accomplishment simultaneosly with or subsequent to other related works.

In conjunction with the above, HQDA dispatches validation teams on an ad hoc basis to the MACOMs/installations to perform validation reviews. Three MACOMs, TRADOC, FORSCOM and Europe, were visited in the fall of 1988 and given a clean bill of health for their validation procedures.

As for the installations on the base closure list, separate review is being performed and data is being gathered to determine the impact their closing/realignment will have on the backlog as a whole.

ASSET CAPITALIZATION

Question. The asset capitalization program was approved by Congress in fiscal year 1983 as a means of financing industrial equipment purchases by including a surcharge in customer rates. About $5 billion was authorized through fiscal year 1989 for asset capitalization purchases. The Army has used asset capitalization funds to acquire Automated Storage and Retrieval Systems at selected depot facilities. One of the Systems located at Letterkenny Army Depot cost $9.1 million. Another at the Anniston Army Depot is nearing completion and is estimated to cost about $20 million. Is it true that at Letterkenny a building to house the system was built with asset capitalization funds instead of military construction funds? If so, does the Army agree with the GAO that by doing this it violated the Antideficiency Act?

Answer. An investigation has been completed. Subject to final review which is being performed by the Army finance center, the conclusion is that a part of the $9.1 million cost of the project should have been funded with military construction funds. The Army does agree that this represents a violation of the Antideficiency Act and is in the process of finding military construction money to properly fund the part which is appropriately funded with military construction funds.

As a result of the findings of the investigation, all subsequent retrieval systems were reviewed and down-scoped to preclude requirement for military construction funds. Simplistically, the retrieval systems are rack supported systems and the aluminum shell supported by the equipment racks has been determined to be appropriately funded as a part of the equipment. The Letterkenny project included some ancillary beam-supported space which was determined by the investigation to be appropriately funded as military construction.

Question. Does the Army perform post investment analysis on each item purchased with asset capitalization money? If so, did the Army conduct such an analysis on each operational Retrieval System and were savings realized for each System?

Answer. As a matter of policy the Army does perform post investment analysis on each item purchased with asset capitalization money for which an economic analysis is required prior to purchase of the item—usually for each item with a purchase price in excess of $25,000. The post investment analysis is scheduled for one year after the item is placed in operation. Recent reviews, one by the Army Audit Agency and one by GAO, have shown that the post investment analysis has not been completed on all items. Limited manpower resources have contributed to this lag in some instances.

The Army has completed post investment analysis of the Retrieval System at Sacramento Army Depot which was acquired at a cost of $9.6 million. The post investment analysis validated that an annual savings of $1.6 million is being realized which meets the projected savings at the time the system was approved for acquisition.

Post investment analysis is in process for the retrieval systems at Letterkenny Army Depot and Anniston Army Depot. These are not yet completed to the point that conclusions can be reached.

Question. Considering the potential for a decrease in heavy equipment depot workload, will the retrieval system at the Anniston Army Depot generate anticipated benefits and savings? Is the Army considering a reduction in the scope of the project to match any reductions to future workload? If so, is this reflected in 1990 budget request?

Answer. The post investment analysis discussed above is expected to identify benefits and savings to be realized at different levels of utilization.

The Army is not considering a reduction in the scope of the project to match any reduction to future workload. The project has progressed to the point that changes to the system as designed would not be cost effective. In recognizing changing requirements for depot maintenance mission workload, Army is performing a rationalization study on all depots to determine appropriate distribution of workload to the different depots to preclude imbalances. For example, as the heavy equipment for Anniston declines, the Army is attempting to identify items which can be shifted to balance the existing workload and maintain a viable production base.

Question. Does the Army use asset capitalization money to fund base operations, minor construction, or administrative type automatic data processing equipment? If so, do you believe this violates the original intent of the program which was to replace obsolete plant equipment and the modernization of equipment that increases productivity?

Answer. The Army does use asset capitalization money to fund base operations, minor construction, and administrative type automatic data processing equipment. The Army does not believe that this violates the original intent of the program. Army contends that a good-faith effort has been made to use the program as intended. The original legislation provided that industrial plant equipment would be purchased with industrial fund monies. The testimony on which the legislation was based provided that "industrial fund" equipment, except for specific exclusions, would be purchased with revenue generated by charges to industrial fund customers in the customer rates/prices. The Army has complied with these provisions.

INDUSTRIAL FUNDS

Question. In fiscal year 1988, the Army transferred $61 million out of the Industrial Fund to the O&M accounts to offset O&M reductions. In fiscal year 1989, the Army is planning to transfer $144.6 million from O&M and to the Fund to offset losses in the Industrial Fund. In fiscal year 1990, the Army is again budgeting a passthrough of $99.3 million from O&M into the Fund to offset losses. What would be the effect on the Industrial Fund if the passthrough did not occur in 1990? What would be the effect if the 1990 passthrough was stretched into 1991 with $50 million passed through each year?

Answer. The most critical issue in programming passthroughs to recover prior year operating losses is maintenance of industrial fund cash at a level to preclude a negative cash balance and, thus, an Antideficiency Act violation. Rates/prices established for fiscal year 1988 and thus far in fiscal year 1989 have not been adequate to recover costs, particularly in the Depot Maintenance mission. This, in addition to the $61 million transferred from the industrial fund in fiscal year 1988, has resulted in a serious cash problem for the industrial fund.

The industrial fund cash balance is at a dangerously low level and Army is intensively reviewing/managing cash on a daily basis to preclude a negative position. With fiscal year 1990 rates established on the fiscal year 1989 base, the situation is not expected to improve to the point that Army can defer the programmed fiscal year 1990 passthrough.

Question. Which O&M account(s) is the source of the 1989 and 1990 passthrough?

Answer. The O&M supply (P7S) account is the source of the 1989 and 1990 passthroughs.

Question. In the case of passthroughs, only the O&M account is affected. If the rates are increased, all customers, including RDT&E and Procurement are affected. By using passthroughs is the Army allowing the O&M accounts to fund the total effect of operating losses, when all customers should be sharing equally in the pain?

Answer. By using passthroughs the Army is, in fact, allowing the O&M acounts to fund the total effect of operating losses, when all customers should be sharing proportionally in the pain. This has been, and continues to be, very disruptive to Army's O&M accounts. Army very much agrees that all customers of the industrial funds should share the pain. The practice of funding industrial fund passthroughs through the O&M supply account is in accordance with current OSD policy. Army is exploring various means of funding passthroughs to require all Army customers of the industrial funds, including RDT&E and Procurement, to pay their appropriate share of passthroughs. This would help in correcting the situation.

Question. Is the Army subsidizing the industrially funded activities and their customers by budgeting for passthroughs instead of raising the rates?

Answer. Yes, the Army is subsidizing non-Army customers of its industrially funded activities by budgeting for passthroughs instead of raising the rates. Army would prefer to raise rates in lieu of programming passthroughs. This would preclude both the problem of the current disruptions to the O&M supply account and would, at the same time, provide that each customer of the industrial fund activities would pay for goods and services received. However, OSD policy precludes a rate increase in the current year and also precludes increases in rates to recover prior year losses.

FOREIGN CURRENCY REQUIREMENTS

Question. The fiscal year 1990 budget request indicates that the Army is planning to transfer $320.5 million from the Defense Stock Fund to pay for 1989 foreign currency variation costs. Does this $320.5 million cover the O&M foreign currency requirements or the military personnel requirements?

Answer. The $320.5 million is for the O&M foreign currency requirements only. Current estimate for fiscal year 1989 for the Foreign Currency Fluctuation Account (FCFA) is $328 million.

Question. Is this in addition to the amount you are withholding from depot maintenance?

Answer. This is not in addition to the amounts withheld from depot maintenance. If the full $320.5 million is received from the Defense Stock Fund, all of the funds borrowed for the FCFA will be returned to their original programs.

REFORGER EXERCISE

Question. The 1989 budget request included $24.2 million for the Army to participate in the REFORGER exercise. The exercise has now been cancelled and a smaller corps exercise has taken its place.

Due to the cancellation of REFORGER, the Army's requirement changed from $24.2 million to $6.5 million.

What are the Army's plans for $17.7 million now available in fiscal year 1989?

Answer. By combining fiscal year 1989 and fiscal year 1990 REFORGER exercises, the following distribution of $24.2 million in fiscal year 1989 funding is planned:

$9.0 million for REFORGER 88 redeployment.

$6.5 million for prefinancing those REFORGER 90 requirements which are legally acceptable and for the other operational requirements.

$5.0 million to be redistributed for CARAVAN GUARD, which will be rehearsal for the REFORGER 90 concept.

$3.7 million was redistributed to other JCS exercises, primarily TEAM SPIRIT and BRIGHT STAR.

Question. Based on the 1989 cancellation and the political concerns over further exercises in Europe, what are the Army's plans for a REFORGER exercise in fiscal year 1990?

Answer. REFORGER 89 (September 1989) was merged with REFORGER 90 (February 1990) under the REFORGER Enhancement Program (REP). The continental United States deployment strength for REP will be 17.4 thousand compared to 12 thousand for REFORGER 89 and 10 thousand for REFORGER 90. Under the REP concept, Field Training Exercise (FTX), Command Post Exercise (CPX), Command Field Training Exercise (CFX), and simulation will be integrated and run concurrently. The number of battalion/brigade headquarters participation in REP will nearly double, while the number of troops in the field will decrease. Total POMCUS draw will be conducted, but prior to the FTX all equipment will be returned to POMCUS except for units participating in the FTX and equipment required for the CFX. The number of track and wheel vehicles deployed to the field will be reduced by 40 percent, which should minimize maneuver damage. The REP concept will take advantage of the latest simulation capability and make more efficient use of training dollars.

TRANSFER OF LINE ITEM MANAGEMENT TO DLA

Question. When the Army is faced with O&M budget reductions and constraints, it often reviews the number of items which it manages. The result can be that items, mostly consumable items are transferred to the Defense Logistics Agency. In fiscal year 1988 and 1989 did the Army transfer the management of any items to DLA?

Answer. The Army had a consumable item transfer program underway in fiscal year 1984 through fiscal year 1988. During that time a total of 14,596 consumable items were transferred to DLA. This equates to approximately 3,649 items per fiscal year.

Question. If so, did you experience a decrease in supply operations workload and funding?

Answer. No, during the same time, 30 thousand new items entered the inventory.

Question. Are you planning any such transfer in fiscal year 1990 and if so, is this reflected in your budget request?

Answer. The Army is in the process of re-energizing its Consumable Item Transfer (CIT) program for fiscal year 1990–1992. Under the new program a review of item candidates will begin mid FY 1989. However, the transfer process will not start until October 1989. This is not reflected in the budget request because the CIT occurs in an incremental, on-going time frame, major impacts will not be seen in the short term, and new items will be entering the inventory.

USE OF COMMERCIAL FUEL FOR STRATEGIC EQUIPMENT

Question. A recent news report states that the Army plans to replace its current supply of fuel with commercial jet fuel, JP-8, by the year 2010. This move should reduce the number of storage areas and resupply vehicles currently dedicated to its 3 different types of fuels. Is JP-8 fuel more or less expensive than the currently used JP-4?

Answer. The Defense Fuel Supply Center (DFSC), a part of the Defense Logistics Agency, is the DoD integrated materiel manager for all fuel. As such, DFSC centrally purchases all fuel used by the Army. The Army purchases JP-4 and JP-8 from DFSC at a DoD set stock fund price. The stock fund price for JP-4 and JP-8 are the same at $.61 per gallon. Future stock prices are projected to be the same for JP-4 and JP-8 through fiscal year 1991.

Question. Will equipment modifications be required on planes, vehicles and generators to allow time to use JP-8 fuel?

Answer. No equipment modifications are required for operation with JP-8. However, operational limitations may apply to selected aircraft (C-12, U-21, UH-1, OH-58 and AH-1) in severe cold weather.

Question. Since JP-8 fuel is a commercial fuel does that mean it is in part supplied by foreign nations? If so, does this pose a national security risk?

Answer. The Defense Fuel Supply Center, as the DoD materiel manager for fuel, centrally purchases fuel consumed by all DoD. This fuel is purchased at the lowest combined cost of fuel and cost of transportation to the United States Government. Therefore, foreign fuel companies do supply JP-8, as they do all other types of fuel.

Question. What kinds of savings do you anticipate with the purchase of JP-8 fuel?

Answer. The Stock Fund Price for JP-4 and JP-8 are projected to be the same through fiscal year 1991. There are no projections after that date. The Stock Fund Price for Diesel Fuel is currently $.04 more per gallon than JP-8. Diesel fuel is projected to be $.01 more per gallon than JP-8 in fiscal years 1990 and 1991.

SUPPLY OPERATIONS

Question. The Army's fiscal year 1990 budget request for supply operations is $1.3 billion. This includes $759 million for depots, $215 million for inventory control points, and $320 million for procurement operations. This is a 7.6 percent increase over fiscal year 1989 level. What is causing the increase in the cost of supply operations?

Answer. The increase in supply operations in fiscal year 1990 is made up of $31 million price growth, $31 million foreign currency fluctuation and $32 million program growth. The real program growth in supply operations is 2.6 percent. The fiscal year 1990 request is minimal given the need to prevent further erosion in supply performance indicators. Due to severe funding constraints in fiscal year 1988 and fiscal year 1989, measures of receipt, storage and issue have fallen to their lowest level in eight years.

[In Percent]

	Goal	Fiscal year—							
		1981	1982	1983	1984	1985	1986	1987	1988
On-Time Reporting	90	95	95	94	94	96	92	93	86
On-Time Stowing	90	90	92	92	91	92	86	86	78
On-Time Issuing	90	93	94	94	94	95	93	93	83
Denial Rate (Minimum)	1	0.9	1.0	0.8	0.8	0.9	1.2	1.2	1.1

The Congressional plus up to the fiscal year 1989 supply operations program funded only minimum essential receipt and issue operations. Approximately seven months of back-logged procurement actions were carried into fiscal year 1990. The fiscal year 1990 request restores the inventory program to the funding level established by Congress in fiscal year 1988 and provides for remedial improvements in Central Procurement actions.

Question. Is the Army buying more items? If so, please provide the increase from 1989 to 1990 by item/commodity.

Answer. The Army is buying less today than in prior years. Despite this, our inventory is growing in General Supplies. This happens because Force Modernization continues despite a slower pace and because of Army and DOD retention policies. What is coming into our inventory today is the fiscal years 1986-88 Buildup Program. We will not see the effects of decreased buys until fiscal year 1991 and beyond.

Question. How does the Army categorize its items—managed items or sales items? Please provide the number of line items managed, by category, for fiscal years 1985-1989.

Answer. The Army categorizes its items as "managed items." Line items managed for Fiscal Years 1985 through 1989 are:

	Fiscal year—				
	1985	1986	1987	1988	1989
End Items and Secondary Items Managed (000)	401	412	416	400	390

Question. How do changes such as a reduction in Army Stock Fund sales, reductions of the Army's OPTEMPO or the transfer of items to DLA affect the supply operations workload and funding?

Answer. Army stock fund sales are increasing. As sales increase, more items are purchased, received, stored and issued which results in increased supply operations workload. The Army's goal for OPTEMPO is 850 miles in fiscal year 1989 and 800 miles in fiscal year 1990. Due to OMA resource constraints, it is expected the actual execution for OPTEMPO in fiscal year 1989 will be closer to 800 miles. As such, increases/decreases in supply operations will be negligable. Since items transferred to DLA for management are usually small, binnable items that are picked, packed and shipped in a more automated/mechanized fashion, the impact on supply operating workload and funding at the depot level is minimal.

Question. In fiscal year 1990, the Army plans to hire an additional 1,342 civilians. What are the planned workload increases to support the additional personnel?

Answer. The growth of 1,342 civilians in Army supply operations is associated with the transfer of assets for the U.S. Army Missile Command from industrially funded to direct Operation and Maintenance, Army funding. This transfer involved 1,823 civilians and includes decreases of 373 to realign foreign military sales assets and 108 civilians in support unit realignments. These actions will reflect projected program execution within the Army Materiel Command.

[CLERK'S NOTE.—End of questions submitted for the record.]

THURSDAY, APRIL 13, 1989.

OPERATION AND MAINTENANCE, AIR FORCE

WITNESS

BRIG. GEN. JOHN L. FINAN, DIRECTOR OF BUDGET OPERATIONS, DEPUTY COMPTROLLER, BUDGET

INTRODUCTION

Mr. MURTHA. The Committee will come to order.

We will talk today about Operation and Maintenance for the Air Force. We welcome Brigadier General John L. Finan, Director of Budget Operations, Deputy Comptroller, Budget, before the Committee. We appreciate your coming before the Committee, General.

I want to say something for the record. I was out in Texas and flew in a B-1 last week and I was very impressed with the skill of the operators.

We flew at 17,000 feet for a short period of time. The wings moved back and forth and, of course, the significance to those of us who don't fly is that it didn't rupture any fuel lines; we didn't have any fires and the hatches didn't come off.

It really performed very well. I flew it for about 15 minutes. I am not a pilot, but I was able to hold it level and in listening to the people that are involved in the program, they were convinced that this program at this stage was as good as any program we could have.

I was particularly impressed by the skill and enthusiasm of the crews on the ground and in the air.

We didn't stay there long, but we got the impression that at this stage of the game, the B-1 is working well and the crews that are flying it do not feel that there is anything wrong with the system that can't be corrected.

Of course, our problem is it is going to be expensive to make the corrections.

With that said, I welcome you to the Committee, General Finan. If you have a statement, we will put it in the record. Please summarize your statement, and we will go right to questions.

SUMMARY STATEMENT OF GENERAL FINAN

General FINAN. Thank you, Mr. Chairman.

I agree with your comments on the B-1. The Air Force feels it is one of the finest bombers in the world, and shares your enthusiasm.

I am certainly pleased to appear before this committee to discuss the Operation and Maintenance, Air Force, budget for fiscal years 1990 and 1991. This information is in support of the Reagan Administration budget released in January and does not represent any subsequent changes currently under review.

Our top priorities remain to recruit, train, motivate, and retain quality people and to maintain a quality force.

In any discussion of Air Force O&M funding, I need to start with fiscal year 1988. In that year, we received significant O&M reductions as a result of the reduced DOD top-line number which was part of the budget summit agreement. We also had to absorb several large costs such as fuel price increases and civilian health benefits. The result was that fiscal year 1988 was a very bad year for Air Force O&M and the operating commands.

However, it did serve as a significant lesson as to what would happen if the O&M account were to continue to be underfunded.

As we built our fiscal year 1989 budget and then our fiscal year 1990 and fiscal year 1991 budgets, there was great unanimity among our four-star commanders in the field, our chief and our staff that we should not slip back into the posture of the 1970s.

It was recognized that O&M wasn't glamorous or high profile, but it was the heart of Air Force readiness since it pays for the daily operation of our bases and flying hour programs throughout the world.

We made a conscious decision to recover this account over the next two years and then to sustain it.

In fiscal year 1989, the first year of the recovery, emphasis was on direct readiness and logistics programs such as flying hours, depot maintenance, and other logistics support programs.

In fiscal year 1990, the second year, emphasis was placed on readiness support areas, including additional civilian personnel work-years for $166 million, base operating support for $189 million, real property maintenance for $81 million, and medical support for $87 million.

You can track in general terms from the fiscal year 1989 appropriated O&M amount of $22,018 million by adding $742 million for inflation and the changes I just outlined to arrive at the $23,265 million requested in this budget for fiscal year 1990.

The fiscal year 1991 request simply provides for inflation while maintaining the fiscal year 1990 level of operation and support activities.

The Air Force recognizes fiscal constraints are being driven by the Federal deficit and that budget requirements planned for in good faith cannot always be fully funded.

We made some hard, tough decisions and consciously elected to avoid the hollow force structure of the seventies and opted instead for a reduced force structure that maintains capabilities within our available resources.

This concludes my introductory remarks on the fiscal years 1990-1991 Operation and Maintenance, Air Force, budget request.

The Air Force fiscal years 1990-1991 budget adequately supports a smaller but capable force and balances the need for quality people and quality forces.

Your support is essential to enable the Air Force to operate and maintain a modern, well-trained, combat-ready force.

Mr. Chairman, I will be happy to answer any questions you may have.

Mr. Murtha. Thank you very much, General.

[The biographical sketch and statement of General Finan follows:]

Biography
United States Air Force

Secretary of the Air Force, Office of Public Affairs, Washington, D.C. 20330-1000

BRIGADIER GENERAL JOHN L. FINAN

Brigadier General John L. Finan is director of budget operations, Office of the Comptroller of the Air Force, Office of the Secretary of the Air Force, Washington, D.C. He is responsible for all aspects of the operation and maintenance budgeting process, and is chairman of the Air Staff Operating Budget Review Committee.

General Finan was born June 11, 1942, in Macon, Ga. He received a bachelor of arts degree in economics from the University of Connecticut in 1963 and a master of business administration degree in accounting from Michigan State University in 1968. The general completed Squadron Officer School in 1973, the Professional Military Comptrollers School course in 1975, Industrial College of the Armed Forces in 1976, Air Command and Staff College in 1977, and Air War College in 1980. He also attended Columbia University's Advanced Management Program in 1985.

He entered active duty after receiving his commission through the Air Force Reserve Officer Training Corps program in June 1963. After attending Budget Officers School, he was assigned to Clark Air Base, Philippines, where he served as wing budget officer.

General Finan returned to the United States in October 1965 and served as budget officer, Headquarters 4th Air Force, Hamilton Air Force Base, Calif. He then attended Michigan State University and received his master's degree, graduating summa cum laude.

In September 1968 he was assigned as budget officer at Don Muang International Airport, Thailand. The general then proceeded to Ramstein Air Base, West Germany, where he served as comptroller, Central European Communications Region, from September 1969 to June 1972. He then was assigned to Air Force headquarters and served four years as a staff budget officer in the Directorate of Personnel Programs.

In 1976 General Finan was assigned to the U.S. Air Force Academy, Colo., as director of budget and management analysis. In August 1979 he returned to the Pentagon and served as executive to the comptroller of the Air Force and military assistant to the assistant secretary of defense, comptroller.

He became deputy chief of staff, comptroller, at Headquarters Military Airlift Command, Scott Air Force Base, Ill., in July 1982. In October 1985 General Finan transferred to the Office of the Comptroller of the Air Force at Air Force headquarters, and served as assistant to the director of budget for plans and programs. He later became chief of the Budget Management Division. He assumed his present duties in May 1987.

The general's military decorations and awards include the Defense Superior Service Medal, Legion of Merit, Bronze Star Medal, Meritorious Service Medal with two oak leaf clusters, and Air Force Commendation Medal with one oak leaf cluster.

He was promoted to brigadier general Aug. 1, 1988, with same date of rank.

General Finan is married to the former Diane Nufer of Cheshire, Conn. They have one son, John Jr.

DEPARTMENT OF THE AIR FORCE

PRESENTATION TO THE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON DEFENSE
UNITED STATES HOUSE OF REPRESENTATIVES

SUBJECT: OPERATION AND MAINTENANCE, AIR FORCE

STATEMENT OF: BRIGADIER GENERAL JOHN L. FINAN
DIRECTOR OF BUDGET OPERATIONS
DEPUTY COMPTROLLER, BUDGET

April 1989

NOT FOR PUBLICATION UNTIL
RELEASED BY THE APPROPRIATIONS
COMMITTEE, UNITED STATES
HOUSE OF REPRESENTATIVES

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to appear before this Committee to present and discuss the Operation and Maintenance (O&M), Air Force budget request for FY 1990/1991. My statement will discuss the O&M funding history from FY 1988 through FY 1991 and will highlight the forces, manpower, and programs supported by these O&M funds. This information is in support of the Reagan administration budget released in January and does not represent any subsequent changes under review.

The following is a summary of the Air Force FY 1988-1991 O&M account:

($ Millions)

	FY 1988	FY 1989	FY 1990	FY 1991
O&M, Air Force (Active)	$20,313	$22,018	$23,265	$23,870
O&M, Air Force Reserve	1,000	1,072	1,007	1,043
O&M, Air National Guard	1,958	2,018	2,056	2,185
Total Air Force	$23,271	$25,108	$26,328	27,098

For the remainder of my statement, I will focus my comments on the O&M, Air Force (Active) request, since the Air Force Reserve and Air National Guard budgets are reviewed separately by this Committee.

OPERATION AND MAINTENANCE, AIR FORCE

The Air Force Operation and Maintenance (O&M) appropriation finances the day-to-day operating costs of the Air Force at 130 major installations. This appropriation supports the key ingredients of combat readiness by providing the funds needed to operate and maintain aircraft and related weapon systems; train personnel; operate communications, command, and control systems; and purchase supplies, equipment, and fuel. O&M also supports essential combat related activities such as intelligence, logistics, weather, air traffic control, search and rescue, medical operations, maintenance of runways and base facilities, contract services, and the working and living environment of Air Force personnel.

Financial requirements in the O&M appropriation are influenced by force structure levels and activity rates. Examples are the number and type of aircraft and squadrons, the number of aircraft sorties and flying hours, equipment inventories, modification acquisition schedules, civilian hiring, training and deployments, the number of installations, and the quantity and complexity of vehicles and other operational equipment.

Economic assumptions used in developing this budget are:

	FY 1989	FY 1990	FY 1991
Civilian pay raise (%)	4.1	2	3
Inflation:			
Standard (%)	3.8	3.4	3.0
Foreign Currency Rates:			
Deutsche Mark	2.06	1.75	1.75
Yen	163.10	123.52	123.52
Pound	.70	.55	.55
Fuel Price (Composite)			
Per barrel	$ 26.46	$ 23.56	$ 24.83
Per gallon	.63	.56	.59

Traditionally we tend to look at O&M according to how our accounts are structured; that is, by Major Force Program or mission area. Our budget justification book is prepared in this manner.

Today, I would like to focus more on major functions or categories where we plan on spending our O&M funds and where the funding changes between FY 1989 and FY 1990/1991 are significant. These are as follows:

O&M, AIR FORCE
($ Millions)

	FY 1988	FY 1989	FY 1990	FY 1991
People				
Civilian Pay*	$4,472	$4,759	$5,148	$5,337
Recruiting/Training	422	472	548	563
Medical	1,298	1,391	1,555	1,641
Flying Hours/Associated Funding	2,506	2,734	2,468	2,498
Depot Maintenance/and Modernization	2,756	3,134	3,253	3,202
Space	665	828	827	880
Base Operating Support	962	817	1,049	1,136
Real Property Maintenance	2,017	2,082	2,271	2,372
Other Programs	5,215	5,801	6,146	6,241
Total	$ 20,313	$ 22,018	$ 23,265	$ 23,870

*Excluded from other categories.

As a result of the FY 1988 budget summit agreement on top line funding for DoD, Air Force O&M received Congressional reductions amounting to $1.7 billion. Furthermore, we absorbed $0.5 billion of additional costs for such things as fuel price increases and civilian health benefits. These fiscal restraints had serious repercussions within the Air Force resulting in fewer flying hours, reduced civilian hiring, and increased backlogs from deferred maintenance for equipment and facilities. In the final analysis, the result was negative real growth of 9 percent between FY 1987 and FY 1988. The Air Force programmed a two-year recovery from this severely constrained FY 1988 funding level.

In FY 1989, the first year of the recovery, the Air Force made a conscious decision to focus on direct readiness and logistics programs. Flying hours were restored to the FY 1987 programmed level of hours per crew, per month. Depot maintenance and other logistics support activity funds were increased to a level that would better support operating activity levels required to meet mission objectives. Congress sustained these efforts with minimal reductions to the O&M account in FY 1989.

FY 1990 is the second year of the Air Force's planned two-year recovery. In this year, emphasis has been placed on readiness support areas. Civilian personnel workyears have been increased to support an average utilization rate of 98 percent. Real property maintenance activities grow for environmental compliance, military to contract conversions, and increased real property maintenance by contract in an effort to restrain the backlog of maintenance and repair of our facilities. An increase in base operating support includes a $114 million transfer from the classified programs and funding for basic infrastructure requirements such as dormitory furniture, transportation, supplies and equipment.

FY 1991 funding simply allows us to maintain the FY 1990 level of operation and support activities.

The following table provides the key price/program changes from FY 1989 to FY 1990 and FY 1990 to FY 1991:

	($ in Millions)
FY 1989 Current Estimate	$22,018
Price Growth	742
Civilian Personnel	166
Base Operating Support	189 *
Real Property Maintenance	81
Medical	87
Force Structure	-284
Remaining Program Changes	+266
FY 1990 Estimate	$23,265
Price Growth	601
Force Structure	-84
Remaining Program Changes	+88
FY 1991 Estimate	$23,870

*Includes $114 million transfer from classified programs within O&M.

O&M AND READINESS

The military might of a nation has historically been measured in terms of troop strength and quantities of hardware: divisions, tanks, aircraft, missiles, and ships. However, an assessment of military capability based exclusively on quantities of equipment and number of personnel ignores the readiness element of combat capability. Readiness is the ability of forces, units, weapon systems, or equipment to deliver the outputs for which they were designed (includes the ability to deploy and employ without unacceptable delays), along with the forces in being (force structure), age and technological capability of weapon systems and equipment (modernization), and the ability to continue effective military operations over an extended period of time (sustainability). Readiness is an essential element of combat capability. The O&M funding requirements reflected in this budget adequately support a smaller but capable force structure that is ready to meet national security objectives.

FORCE STRUCTURE CHANGES

The Air Force recognizes fiscal constraints are being driven by the federal deficit and that budget requirements planned and programmed for in good faith, cannot always be fully funded. We made some hard, tough decisions and consciously elected to avoid the hollow force structure of the 1970s and opted instead for a reduced force structure that maintains capabilities. These force structure changes are detailed below and resulted in reduced FY 1990/1991 O&M funding of $399 million.

In the strategic area, our offensive force structure is reduced by deactivating three B-52 squadrons/squadron equivalents, and transferring one KC-135 equivalent squadron to the Air National Guard. The impact of these reductions is 32,000 less flying hours and a $87 million reduction in O&M costs. In addition, the SR-71 program is being phased out for a saving of $203 million. Our strategic defensive forces are reduced by deactivating one F-15 fighter interceptor squadron. The impact is 5,000 less flying hours and a $9 million reduction in O&M costs.

The tactical force structure is reduced from 38 tactical fighter wing equivalents (TFWE) to 35 TFWEs. The first TFWE is the 474 TFW (F-16s) at Nellis AFB, Nevada, which is programmed to come off the books at the end of FY 1989. The second TFWE came from reducing 8 Guard/Reserve squadrons from 24 primary aircraft authorization (PAA) to 18 PAA as we modernized them during conversion. The third TFWE is a CONUS replacement for the 401 TFW (F-16s) at Torrejon AB, Spain which will be retained overseas but not in Spain. In addition, one Air National Guard F-4 squadron will convert to an OA-10 Forward Air Control (FAC) squadron. The offset for retaining the 401 TFW in Europe is derived from the following: consolidating F/RF-4 training at George AFB, California; deactivating one F-16 C/D squadron at Homestead AFB, Florida; reducing A-10s at Davis-Monthan AFB, Arizona; and reducing F-15s at Tyndall AFB, Florida. These actions reduce O&M costs by $67 million. Also in the tactical area, ground launched cruise missile (GLCM) flights are continuing to be phased out reducing O&M costs by another $26 million.

Airlift force structure changes include the introduction of the C-17 and the C-STOL (C-27) aircraft in FY 1991. O&M dollars will be required to fund the C-17 Aircrew Training System (ATS). The five C-STOL aircraft are scheduled to be delivered in the fourth quarter of FY 1991, with some minor associated O&M costs. In addition, the Air Force Combat Rescue Forces are being modernized by replacing CH/HH-3E helicopters with MH-60G helicopters. The overall savings associated with these modernization efforts total $7 million.

PEOPLE

People are our key resource. No investment in equipment and facilities would produce readiness without well-trained, motivated, and dedicated people. We must attract and retain high quality people, train them to do their jobs, and sustain them and their families.

To maximize the personnel resources utilized by the Air Force, our first priority is to identify the kinds of people that are needed to execute our mission, as well as identifying the most efficient operations. Under the total force concept, we continually evaluate our personnel requirements to ensure that we have the correct mix of officer, enlisted and civilian personnel. The Air Force share of the Congressionally directed officer reduction resulted in conversions of officer billets to either civilian or enlisted authorizations. As a result, Air Force civilian authorizations increased by 420 in FY 1989 and 440 in FY 1990. An additional 1,100 military spaces will be converted to civilian authorizations in FY 1990 as a result of our continual review of military essential spaces. This conversion will occur primarily in base operating support and real property maintenance activities. Finally, as a result of our support for the President's goal to increase Federal productivity by 3 percent annually, the Air Force is conducting across-the-board cost comparisons (A-76) and functional reviews. For example, 1,729 military spaces and 1,497 civilian spaces will be converted to contract in FY 1990. The funds for these contract conversions are now reflected in the O&M account. For the military conversions, this is a transfer from the Military Personnel Appropriation as opposed to program growth. In spite of these changes, the O&M, Air Force civilian population remains relatively constant from FY 1989 to FY 1990 and into FY 1991. Budget constraints in FY 1988, discussed earlier, drove civilian hiring down well below programmed requirement levels in FY 1988.

	End Strengths (000)			
	FY 1988	FY 1989	FY 1990	FY 1991
Military (Active Force)	576.4	571.0	571.1	566.8
Civilian (Active O&M AF)	160.0	171.3	171.3	170.6

Civilian Pay

The funding to support this Air Force O&M civilian profile resulted in an increase of $389 million from FY 1989 to FY 1990. Approximately half of this increase ($160 million) was driven by pricing changes such as the FY 1989 annualized health benefit costs, a Federal Employees Retirement System (FERS) cost increase and a two percent pay raise in FY 1990 for all civilians, both U.S. and foreign nationals. A change in the foreign currency exchange rate, to more accurately reflect the current value of the dollar, alone resulted in an increase of $63 million. The remainder of the increase ($166 million) pays for an additional 4,000 workyears over FY 1989. These additional workyears are due to an increase in the hiring rate against available spaces from 95 percent in FY 1989 to 98 percent in FY 1990 and FY 1991; the conversion of the San Antonio Real Property Maintenance Activity (SARPMA) from an Industrial Fund Activity to O&M funded; and the officer to civilian conversions. It should be noted that, to the extent foreign national pay raises continue to exceed those allowed for U.S. nationals, the O&M account will be forced to absorb shortfalls in FY 1990 and FY 1991 through reduced hiring or other actions.

Other Personnel Support

Although the pay and allowances for military members are reflected in a separate appropriation, O&M also provides personnel support for our military members. Our recruiting stations and advertising are paid for with O&M funds. O&M funds operate the technical training centers which provide entry level job skill training as well as advanced courses required for our members to become senior technicians and managers. When new weapon systems are acquired, instructors and maintenance personnel are sent to the manufacturers' plants for training. Once military personnel are trained and in the field, most of their operating support, except for pay and food, is provided by O&M funding. Dormitories are maintained and equipped, and dining halls are operated with O&M funds. Real property maintenance funding determines the condition of these facilities. The O&M dollars spent in support of military personnel have a positive impact on retention. These dollars help avoid much larger costs that will be incurred if we are required to recruit and train replacements for dissatisfied members who leave the Air Force.

Recruiting and Training

Once we have identified the kinds of people we need and have brought them on board, our next priority is to ensure all personnel have the training necessary to contribute to the Air Force mission. Air Force recruiting and training programs grew by $76 million in FY 1990 but remain level into FY 1991. Forty-five million dollars of this increase is a transfer in from the Military Personnel Appropriation for Aircraft and Simulator Maintenance Contracts. The increased training dollars also will purchase additional technical training for the support of a variety of specialized intelligence training systems involving imagery processing and signal intelligence, an increase in scholarships for ROTC students in engineering and other technical degree programs, and training costs of approximately 20,000 more non-prior service accessions.

Medical

Once we ensure we have the right people in the right job with the appropriate training, we can focus our efforts on providing for the health care of our members and their families. A major issue facing the medical community of the Air Force, as well as private industry, is the rising cost of health care. To provide quality health care while aggressively addressing the cost issue, we have invested $33 million in FY 1990 in a series of health care initiatives to control the growth of Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) medical costs. These initiatives should provide greater health care capability at our own military facilities at a lower cost to the Air Force. These cost efficient measures will also translate into a reduction in out-of-pocket costs to our families as usage increases at our military treatment facilities. In addition, this budget fully funds CHAMPUS under the new catchment area concept. Under this concept, selected bases can expand services, thus reducing CHAMPUS costs. This provides an opportunity for local managers to provide better health care in a more efficient manner with available resources.

Morale, Welfare and Recreation (MWR)

MWR programs are one of the best forms of nonmonetary compensation. They provide a direct contribution to morale, fitness, and a healthy lifestyle for our people. Their value is ultimately measured in the readiness of our force. At overseas locations, they are often the only social activities available to our families. In such instances, they provide food, entertainment and social activities familiar to American taste and values, fostering a sense of community togetherness and pride.

During the past three authorization and appropriation hearings, the committees provided the Services guidance in the funding and operation of these programs. In FY 1988 and FY 1989, Congress established a ceiling on the amount of appropriated funds that can be used in support of MWR activities. They further directed the elimination of direct appropriated fund support to MWR revenue generating activities and a reduction of nonappropriated subsidy to those activities authorized appropriated fund support. The ceiling was intended to encourage the Services to reallocate funding in accordance with this philosophy. A DoD policy implementing this guidance has been approved. The policy recognizes the government's responsibility to fund activities such as gymnasiums, libraries, and child care centers that support the organizational and institutional goals of the Air Force. It also recognizes that certain activities, such as golf courses and bowling centers, primarily benefit the individual and will be supported through self-generated monies and operated as business activities.

While we have worked to reduce taxpayer funding of revenue generating activities, the ceiling limits our ability to fully comply with the Congressional intent. As a result, the Air Force faces a minimum shortfall of $95 million each fiscal year in appropriated fund support for MWR activities such as gymnasiums, libraries, and child care centers beginning in FY 1989. This shortfall is the difference between the appropriated funding ceiling and the amount required to fully fund these activities. The bulk of the shortfall is for appropriated fund staffing in activities that previously had substantial nonappropriated staffing.

The level of MWR funding in this budget for FYs 1990 and 1991 reflects only the Congressionally approved FY 1989 funding ceiling, plus growth for inflation.

We believe the approved DoD policy adequately addresses priority Congressional concerns over the proper uses of appropriated and nonappropriated funds in these activities. We feel with that policy in place, future levels of support should be driven by mission requirements and environmental conditions. Accordingly, we request this Committee's support for removal of the ceiling.

Our highest priority remains to recruit, train, support, and retain top quality people. We have long recognized that our greatest strength comes from the spirit, resourcefulness, and dedication of our people.

FLYING HOUR PROGRAM

The Air Force flying hour program is key to the readiness of our strategic, tactical and airlift forces. In light of fiscal constraints, the FY 1990/1991 program reflects the minimum acceptable combat capability for our given force structure. The Air Force's flying hour program for the Active Air Force decreases by about 94,000 hours or 3.9 percent between FY 1989 and FY 1991, but the hours per crew per month remain at the FY 1987 programmed activity level. The flying hour decreases are primarily due to the force structure reductions of 116 aircraft addressed earlier in this statement. These reductions include the retirement of 35 B-52's ($-34.5 million); the transfer of 14 KC-135s ($-11.2 million) to the Air National Guard; and reductions in F-4E/Ds, F-111s, and RF-4 aircraft ($-57.9 million).

The following table shows the active aircraft inventory and the flying hours funded by the O&M, Air Force account:

O&M, AIR FORCE ACTIVE AIRCRAFT INVENTORY AND FLYING HOURS*

	FY 1989	FY 1990	FY 1991
Primary Aircraft Inventory (PAI)	5,530	5,400	5,414
Flying Hours (000)	2,369	2,288	2,275

*Includes Foreign Government Owned (FGO) aircraft operated by the Air Force.

The primary aircraft inventory (PAI) is the inventory of aircraft actually assigned to units for the performance of their operational missions. It is the factor that is used to determine flying hour allocations. There is a correlation between changes in PAI and changes in flying hours; however, due to the phasing of force structure changes, the full flying hour impact of PAI changes may not be realized until the following fiscal year.

The O&M PAI shows a net decrease of 130 in FY 1990 and net increase of 14 in FY 1991. The Air Force's modernization program continues as F-16 A/Bs are replaced by F-16 C/Ds; B-52Gs begin phasing out; F-15Es continue building; and the capabilities of the Special Operations Forces are expanded.

A substantial portion of the total O&M budget directly supports flying operations. A large part of the depot maintenance program, all aircraft contractor logistics support (CLS), all of the aviation petroleum-oil-lubricants (AVPOL), and roughly 25 percent of the supplies purchased with O&M funds directly support aircraft and flying operations.

CLS is a preplanned permanent support concept that provides total or near total logistic support to a system or equipment by contract throughout its entire life cycle. The Air Force contracts for all or part of the system/equipment's logistic support at one or more levels of maintenance in lieu of developing an organic capability.

The need for AVPOL and supplies is straightforward. Aviation POL is the fuel consumed in flying aircraft and in maintaining and testing engines. Due to lower DoD fuel prices, AVPOL cost per gallon (composite price) is programmed to drop from .63 in FY 1989 to .56 in FY 1990. This results in a savings of $142 million in FY 1990. Supplies are the replacement parts and other expendable items used by field maintenance organizations to repair aircraft.

Flying hours generate expenditures for aviation fuel, supplies, depot maintenance, contractor logistics support, TDY, training, range time, and transportation. Just as important as the hours themselves are where and how they are flown. Straight and level flight, for example, does little to prepare a fighter pilot for war. Aircrews must practice, as nearly as possible, under conditions they would face in actual combat. Training must be rigorous and realistic to allow crew members to exploit the full potential of their weapon system. As weapons have become more expensive and more lethal, practice with "live" weapons has become increasingly limited. Electronic simulation devices complement practice with actual weapons. Improved technology on our training ranges enhances realism when electronic simulation devices are used.

To meet this training challenge, highly sophisticated training ranges are being maintained at the Tactical Air Warfare Center, the Tactical Fighter Weapons Center, the Strategic Training Route Complex, and other weapon training sites. Here aircrews can simulate weapons releases against simulated enemy defenses. These ranges and the simulation devices, such as Air Combat Maneuvering Instrumentation (ACMI), are supported with O&M dollars.

Generally, aircrews must deploy to use the ranges. For example, aircraft and crews from Moody AFB, Georgia, may go to the ranges at Nellis AFB, Nevada, to employ precision guided weapons. When a squadron is deployed, its maintenance capability goes with it. Maintenance people, spare parts, tools and equipment are deployed, and we provide a travel allowance to aircrews and maintenance personnel which helps offset their additional living costs. The spares and required maintenance equipment must also be transported to the range. All these transportation and TDY costs are paid with O&M dollars.

Training deployments produce other readiness benefits. U.S. based units become more effective by deploying to Europe or the Pacific to train in the environment in which they may have to fight. Effectiveness of our alliances is improved by conducting exchange and interoperability exercises with allied nations. These exercises require significant expenditures of O&M funds but have a high payoff in readiness training. For aircrews and maintenance personnel to perform the duties for which they train, they must have the weapons, maintenance equipment, parts, and supplies they need. Transportation of materiel from supply centers in the United States to the using unit, wherever it might be, is paid with O&M funds.

DEPOT MAINTENANCE

The Air Force Depot Maintenance and Modernization Program is one of the most visible of the O&M programs because of its cost and direct impact on force readiness. Depot Maintenance and Modernization provides for centralized maintenance and modification of aircraft, missiles, engines, other major equipment items, area base maintenance, exchangeable (repairable) subassemblies and/or components. Depot Maintenance also includes Interim Contractor Support (ICS), Big Safari (classified program), and Other Logistic Activities (OLA). Depot level maintenance is accomplished at the five Air Logistics Centers (ALCs), the Aerospace Guidance and Metrology Center (AGMC), the Aircraft Maintenance and Regeneration Center (AMARC), through interservice support, or by defense related contractors.

O&M funds spent for depot maintenance maintain and improve war fighting capability. Combat training must be rigorous to be effective, and under the stress of such training, equipment deteriorates rapidly. Air Force equipment is also exposed to the elements in some of the world's harshest environments. Since we train with the weapons we fight with, deteriorated equipment must be restored or replaced. By restoring equipment to a ready state, depot maintenance helps avoid tremendous investment costs (repair vs. buy cost is 7 to 1 return on dollars) as well as ensuring a high level of weapon system readiness to meet potential worldwide mobility commitments.

Beside deterioration and the need to maintain a consistent peacetime readiness posture, the Air Force must deal with obsolescence and the resulting need for new capabilities and technological advances. In many cases, we avoid buying new systems by modifying and extending the useful life of existing systems. The KC-135 re-engining program is an example of a current modification. Although modification kits are bought with procurement funds, installation of these kits is an O&M "modernization" cost--whether accomplished by private contractors or by in-house organic capability.

The four major factors that drive the requirements for depot maintenance are the number of aircraft in the inventory, aircraft age, the flying hour program, and the complexity of highly technical aircraft systems. First, the number of aircraft in the total Air Force inventory has decreased from 6,368 in FY 1978 to a FY 1990 total of 6,008; however, the current average age for the entire Air Force inventory is 15.8 years and growing. As the aircraft get older, they generally require more maintenance at a greater cost. For example, accumulated stress and fatigue damage has necessitated the introduction of an F-15 Programmed Depot Maintenance Program beginning in FY 1990. The active Air Force flying hour program has decreased between FY 1989 and FY 1991 resulting in a slight decrease in flying hour driven requirements measured in constant dollars. Finally, even though newer aircraft are designed and produced to be highly reliable and maintainable, producing more flying hours between repairs, the repairs to these highly technical systems may cost more than the less sophisticated systems of earlier models. In addition, the technical complexity of our new systems and equipment and the commensurate complexity and lead time to acquire necessary organic maintenance support, often forces the Air Force to utilize Interim Contractor Support until we can establish an organic maintenance capability. As a result of the above factors, the maintenance environment changes to keep pace with the dynamic challenges placed on it. The Air Force budget contains adequate funds needed to keep pace with changing requirements.

Unfortunately, since FY 1985, fiscal constraints have caused a growth in the unfunded requirement (backlog) which is carried forward into the following year. While the FY 1990/1991 President's Budget does not eliminate those backlogs, it does provide for adequate funding to support the flying hour program and maintain readiness.

In addition to adequate funding, it is imperative that we maintain an environment in which our managers have the maximum flexibility to deal with the fact of life changes that occur between the development of a budget and execution of the program. This is particularly true in Depot Maintenance, not only because of the dynamic nature of the program but because it constitutes almost fifty percent of Major Force Program 7. Since FY 1988, a major impediment to the managers' flexibility has been the floor imposed on the Depot Maintenance program. We strongly believe that all of our efforts to better plan and budget for this program are hampered by the floor our managers face during execution. We request this Committee not impose a Depot Maintenance floor in FY 1990.

SPACE OPERATIONS

Our military space systems support a variety of essential military operations such as navigation, communications, surveillance, and weather observation. Satellites have global access and are more efficient than alternative means of support. This is the primary reason systems, such as the Defense Meteorological Support Program (DMSP), the Defense Support Program (DSP) and the Defense Satellite Communications System (DSCS), have become totally irreplaceable for the success of military operations. Space operations has been one of our most dynamic areas in the last three years and will remain so in the future.

The ability to launch our space systems into orbit was shaken to the core by the Shuttle and Titan accidents in 1986. The Air Force, as the DoD agent for space launch, rapidly moved forward with a Congressionally-supported plan to recover our space launch systems and develop a more robust national capability. This strategy has reached fruition. Fiscal Year 1989 is a high point in DoD space operations as several new launch systems reach initial launch capability.

Fiscal Year 1990 will be even more active as all DoD launch systems move toward maximum launch rates or into final activation. The heavy launch rate is driven by the need to orbit the backlog of satellites awaiting launch since 1986. We will launch six Delta II missions in order to move NAVSTAR well on its way toward an operational constellation in FY 1992. Three DoD Shuttle missions and three Air Force Titan IV, O&M funded, missions are planned. We assume operational funding responsibility for the Titan II space booster at Vandenberg AFB, California in 1990 and will use it for the Defense Meteorological Satellite Program and other programs in the future. Our combined launch rate for these Delta II and Titan IV boosters and other smaller ones, such as Atlas E, will be ten missions in 1990. The rate will be almost as high in 1991.

The capacity of the Air Force's Satellite Control Network (AFSCN) is expanding to meet the workload that will be generated from increasing launch activity in 1989/1991. The Consolidated Space Operations Center (CSOC) located at Falcon AFB, Colorado Springs, Colorado, includes facilities which provide improved survivability and security for space operations; improved planning, preparation and control for operational DoD satellite systems; and it serves as the command and control center for the AFSCN. Three very dynamic years are ahead in the space operations area--three years which must be completed successfully in order to ensure DoD space launch recovery is complete and our vital on-orbit assets are providing all the support needed by the military commanders in the field.

BASE OPERATING SUPPORT

Base operating support (BOS) is synonymous with readiness. Driven by mission requirements, many BOS requirements are fixed and inflexible because they are predetermined by the force structure. BOS is not easy to quantify in terms of number and age of installations, or by the number of aircraft, flying hours, or workyears. It is a program that cuts across all major force programs and is an integral part of the mission structure. Remember, BOS is readiness support and not just "housekeeping."

BOS includes, but is not confined to, support for such functions as Services Squadron, Transportation, Supply, Security Police, MWR, Communications, Personnel, Comptroller, Chaplain, Judge Advocate, and Transient Aircraft Alert. These functions incur various types of expenditures including civilian pay, travel, supplies, equipment, purchased maintenance of equipment, and other miscellaneous contract services. It is important to remember that civilian pay and contracted services account for 74 percent of BOS. Thus, reductions in this area directly impact people and hiring postures.

Even after the addition of $60.7 million in FY 1988 for three bases transferred to O&M from RDT&E, FY 1988 BOS funding was well below the $1,092.1 million executed in FY 1987. While the Air Force programmed in FY 1989 to keep BOS at approximately the FY 1988 level, it received a $176.8 million non-programmatic reduction. This funding level constrained BOS even below the extremely austere FY 1988 program, causing continued deferral of equipment, supplies, and contractual services needed to provide an adequate working and living environment for mission and support personnel.

The FY 1990 increase in BOS includes price growth of +$42.1 million, net transfers of +$123.4 million ($114 million from classified programs), and program growth of +$65.9 million. The program growth in FY 1990 provides resources to alleviate some of the negative impact of constrained funding in the two previous years. Major increases are for, family support centers, Unaccompanied Personnel Facilities Improvement Program (UPFIP), equipment maintenance for new automated systems, and support costs associated with the conversion from the F-4 to the F-15E.

It is important to note, however, that the program growth will still not restore the BOS program to the level actually executed in the constrained FY 1988 environment and must not be further reduced.

REAL PROPERTY MAINTENANCE

About 13 percent of the O&M budget is for Civil Engineering activities, including maintenance and repair of real property. Operation and upkeep of the facility plant are of vital concern since the Air Force currently trains and will fight from its bases. Much of the plant is the supporting structure for readiness and sustainability: maintenance hangars, aircraft shelters, missile silos/launch facilities, command and control facilities, training buildings, and runways. The plant also provides essential living and recreation areas for our people, helping to retain a quality force.

Requirements to preserve and adapt the plant to current needs continually accrue. New maintenance and repair efforts arise as the plant grows older. The average age of facilities is over 31 years and much of the plant is of World War II or Korean War vintage. Increasing constraints on Military Construction funds dictate the extended use of our facilities. More stringent life/safety, fire protection, and environmental criteria, especially the latter, are demanding an increasing share of our maintenance funding. Our older facilities must be renovated to comply with current public and legal standards. A commitment to fund these efforts is cost effective and provides long-range benefits, and we have included $45 million in this budget for these compliance efforts.

Due to the keen competition for funds, neither the FY 1988 actual funding, nor the FY 1989 appropriated amount for Real Property Maintenance (RPM) is sufficient to satisfy the level of new maintenance and repair requirements. Although there are slight increases for RPM in the FY 1990 and 1991 budget requests, these increases are from a severely depressed base line. Within this constrained budget, we earnestly need your full support for partial restoration of RPM funding in FY 1990 and FY 1991.

OTHER PROGRAMS

This area contains the remaining Air Forces mission costs. It includes categories such as sustaining engineering, supplies and equipment (non-flying), first and second destination transportation, direct mission travel (e.g., exercises, inspection visits, and mission crews), communications to include dedicated circuits and common-user requirements, National Foreign Intelligence Program (NFIP) and other classified programs, workman's compensation, and numerous contractual efforts. Some of the larger support contract efforts include the Distant Early Warning (DEW) line, North Warning System, Over-The-Horizon Backscatter (OTHB)

Radar, ADPE processing services for all computer systems, purchased equipment maintenance for all mission areas, and range contract operations (e.g. Nellis, Eastern/Western Test Ranges). While there is a wide variety of minor offsetting changes to various programs due to operational systems changes, as a general rule, the growth between FY 1989 and FY 1990 can be attributed to inflation plus a funding pass through to the Airlift Service Industrial Fund. The FY 1990 to FY 1991 growth is for inflation.

CONCLUSION

This concludes my statement on the FY 1990/1991 O&M, Air Force budget request. This budget request provides the minimum resources required for a smaller force structure and attempts to balance our readiness requirements against pressing needs for modernization within constrained fiscal parameters.

AIR FORCE STOCK FUND

Mr. **Murtha**. The General Accounting Office briefed the Committee staff on the Air Force stock fund and provided information which indicates that the stock fund accounting system does not have adequate internal controls to ensure that all sales of aircraft fuel are properly entered into the Aviation Fuels Accounting System.

What has happened is that the stock fund has not been reimbursed for the total amount of fuel consumed by its customers. The fuel bills are not getting transferred to the customers.

This situation caused a $490 million shortfall in the Air Force stock fund from 1980 to 1988.

The normal course of action is to raise the stock fund rates or have the customer accounts pay for the shortfall by providing a "pass through" to the stock fund.

In January of 1988, the Air Force chose not to take the normal course of action and moved $133 million in lapsed O&M appropriations from the "M" account into the stock fund to cover the 1980 to 1985 stock fund losses.

Was this action approved by your office?

General **Finan**. My office certainly was aware of the action and concurred in the action, Mr. Chairman.

We have a basic problem in our accounting system, as you addressed earlier, in that we are having a hard time tracking between two different accounting systems, the Base Fuel Management Supply System, and the Base Level Financial Accounting System.

For some reason, a discrepancy has developed between those two systems which has resulted in bills that are reported as owed on one side and bills reported as fully paid on the other side.

We have now asked our Air Force Audit Agency to do a thorough audit on the accounting systems and the supply system in an attempt to validate the bills and ascertain if the bills are valid ones which we still owe funds for, or whether it is an accounting discrepancy and the bills should be written off.

We hope to have an answer on that in early June, sir.

Mr. **Murtha**. How does the Air Force justify the use of "M" account funds to cover losses due to inaccurate data in the Aviation Fuels Accounting System?

General **Finan**. On the payment of some of the prior bills out of the "M" account, those bills were paid before we realized the magnitude of the total problem facing the Air Force.

The bills that were paid were 1985 and prior. To the extent those bills were specifically identified to those fiscal years at that point in time, we felt they were legal payments out of the "M" accounts since those fiscal years had lapsed.

Mr. **Murtha**. You are talking about a half billion dollars now. Can you identify it now?

General **Finan**. We have a breakout by fiscal year on bills that the one side says are owed. We cannot ascertain whether those are valid bills in all fiscal years.

We are scrubbing both systems to see if we can find out what the difference is.

Mr. **Murtha**. If you base fuel costs on this fund, I don't know how you could project the cost down the road. This really seems like a problem to me, General.

General **Finan**. Yes, Mr. Chairman.

That is one of the things that concerns us.

In fact, if the bills are valid bills for the prior years, this tells us we in essence have been underpricing the fuel costs in the outyears and as such we would be underpricing our flying hour program in fiscal years 1990–1991.

On the other hand, if we find out the bills aren't valid, we feel fairly certain that our budget is adequately priced for the flying hours and the fuel prices as they are.

Mr. **Murtha**. One thing this committee has been involved in is making sure we had more money for flying hours and readiness.

Before the Air Force was pushing flying hours, we pushed spare parts, flying hours and increased money for training. That decreased the accidents rate and saved lives.

It looks like you are talking about half a billion dollars. Are we going to have to be concerned about less flying hours?

Where are you going to get the money to make up for this deficiency?

General **Finan**. The half billion dollars was fiscal year 1988 and prior, so we would have to go back to the prior year accounts in each fiscal year to see whether there are available balances to pay those bills.

In cases where the years have already lapsed, it would be another "M" account withdrawal.

For those years that have not lapsed, we would have to see if we have balances to cover those bills.

Mr. **Murtha**. If the Air Force now considers the $490 million in unprocessed fuel billings valid obligations, why did it make only a $133 million adjustment?

Are other adjustments planned from the "M" account and, if not, are the customers' appropriations adequate to pay for this adjustment?

General **Finan**. At the time we got the prior year $133 million bill for fiscal year 1985 and prior, we felt those were valid bills based on the accounting folks that had gone through the bills and validated the money on an individual basis and reported they were valid. The payment was based on that.

[Clerk's note.—Subsequent to the hearing General Finan revised his remarks and deleted the reference that the money was validated on an individual basis, as follows:]

> General **Finan**. At that time, they said they had other bills pending and they were in the process of validating them.
>
> They subsequently came back and told us the magnitude and we asked for the auditors to step in because we were concerned that the magnitude of this discrepancy was just too large.

Mr. **Murtha**. Did you augment the stock fund cash balance or extend the life of the customers' appropriations with the $133 million?

General **Finan**. The $133 million went directly into the stock fund. It augmented the cash balance.

Mr. **Murtha**. When do you plan to see this corrected?

General **Finan**. We expect to get the results from the audit report sometime in June, Mr. Chairman, and at that time we would start taking appropriate action as dictated by the audit report.

B-1B AIRCRAFT

Mr. **Murtha**. Let's talk about the B-1B training program and flying hours.

On March 28, 1989, the Air Force Strategic Air Command suspended training flights of the B-1B bomber due to fuel leaks in the plane's wing tanks.

Even before this suspension of training flights, GAO had reported that most B-1B pilots assigned to the bombardment squadron at Dyess Air Force Base were unable to complete all of their training requirements for the six-month training period which ended June 30, 1987.

According to GAO, this was primarily due to the lack of aircraft availability and parts shortages.

Here we have a study by GAO on the B-1 Bomber, and I am sure you have seen the GAO study. It is dated July of last year.

It shows spare parts mean-time-between-failure. The first item listed is an RO tone generator, the contractor projects it will last 2,700 hours, and it actually lasted 538 hours mean-time-between-failures.

You look down the list and almost every part lasted substantially shorter or less time than was projected by the contractor.

Is this causing you a lot of problems as far as keeping the B-1 in the air and the amount of money that is available to fix the problem?

General **Finan**. I am unaware of any problems we are having as a result of that which is influencing flying hours right now.

I have talked to the B-1 folks. They still feel that they will be able to fly the flying hour program scheduled for fiscal year 1989, and to date lack of parts or part quality has not impeded them accomplishing their mission.

Mr. **Murtha**. Well, we are going to have a separate hearing on spare parts, so I don't want to dwell on the issue with you.

However, when you say 2,700 hours and you only got 538 and when you look down the list, next is auxiliary accumulator motor is projected at 4,000 hours and you got a thousand hours out of it, I am concerned.

There is probably an abundance of spare parts early on and they are using those up rapidly. It may cost us a lot more money than we projected for the maintenance of this aircraft.

I believe out of the number of B-1s we have out there, we have a small percentage dead-line because of lack of spare parts. They are cannibalizing these airplanes.

They did complain about the airplanes all being different and it did take some time in order to get the maintenance people to the point where they could work out all these problems.

Is the cost of maintenance per airplane extensively more than you projected?

General FINAN. I don't have those figures readily available. I will be happy to provide them for the record, Mr. Chairman.

[The information follows:]

The routine maintenance costs for the B-1B have not been significantly greater than we expected. In fact our original fiscal year 1988 President's Budget request had a B-1B base level supply cost of $2,237 per flying hour, yet by the end of fiscal year 1988 the cost was only $1,287 per flying hour. Even Interim Contractor Support costs in fiscal year 1988 dropped (primarily due to the flying hour reduction directed by Congress) from our original President's Budget requirement of $123.4 million to end of year actual expenditures of $106.0 million. Our revised fiscal year 1989 President's Budget request, as well as our current fiscal year 1990/1991 President's Budget requests, all reflect lower than originally projected routine operating costs.

Mr. MURTHA. Can you do all the B-1 maintenance in-house?

General FINAN. No, sir.

We are doing some interim contractor support and we have some contractor logistics support for the simulator that goes along with the B-1 maintenance.

Eventually the plan is to do aircraft maintenance in-house. Simulator maintenance will remain a contractor operation.

Mr. MURTHA. Provide for the record how much you paid the contractor for interim contractor support for the B-1 in fiscal year 1988 and your cost estimates for 1990.

General FINAN. Yes, sir.

[The information follows:]

The Air Force paid $106 million in fiscal year 1988 and is estimating $92.2 million in fiscal year 1990 for B-1 Interim Contractor Support [ICS].

FISCAL YEAR 1989 FUNDING FOR READINESS ITEMS

Mr. MURTHA. Last year, the appropriations conferees included $69 million for readiness items, including the cost of Hurricane Gilbert clean-up and repair.

At the time of the 1989 conference, the Air Force was unsure what would be the total cost of this effort, with estimates ranging from $25 to $50 million.

Has the Air Force completed the clean-up and repair from Hurricane Gilbert? If not, when will it be completed?

General FINAN. Mr. Chairman, out of the $23 million appropriated for Hurricane Gilbert, we currently have spent about $18 million of that. We anticipate spending the rest and possibly a million or two more by the end of this fiscal year.

UNIFIED AND SPECIFIED COMMANDS

Mr. MURTHA. Let me ask you about Unified and Specified Commands. In February 1988, the DOD Inspector General reported that the staffing of the Unified and Specified Commands could be reduced by 7,309 military and civilian personnel.

After review of the IG's recommendations, the Services responded that only 2,990 spaces could actually be reduced.

Of the 2,990 spaces eliminated from the commands, 2,244 will be used to increase staffing of combat units and medical activities.

This will result in a net reduction of 746 spaces to be accomplished from fiscal year 1989 through fiscal year 1991. The Air Force will take 97 percent of this net reduction.

Since DOD made this decision after the budget had been submitted, the effect of the 746 net reduction is not shown in the fiscal year 1990 budget. How many military and civilian personnel will be reduced in fiscal year 1989 and what are the budgetary savings associated with this reduction?

General FINAN. Sir, the Air Force reduced about 747 total spaces out of fiscal years 1989, 1990 and 1991 budgets.

Three hundred forty-four of those were officers; two hundred seventy-two airmen; and one hundred thirty-one civilians.

The O&M costs associated with the civilians are about $0.1 million in fiscal year 1989, $2.0 million in fiscal year 1990, and $4.4 million in fiscal year 1991. If you priced out the military with according salary, it would be somewhere in the range of $7 to $8 million.

DEPOT MAINTENANCE

Mr. MURTHA. Regarding depot maintenance and supply operations, the Committee's Surveys and Investigative staff has been looking into the relationship between the supply side and the depot maintenance side of Program 7.

Based on preliminary results of the S&I work, it appears that large sums of depot maintenance funding have been used to support supply operations.

Since 1985, the Air Force has reduced depot maintenance funding by $754 million and has increased supply operations by $761 million.

In other words, the money Congress has added over the years for depot maintenance has not been used for depot maintenance at all, but for supply operations.

In fiscal year 1989, this Committee recommended that there should be a fence placed around depot maintenance and supply operations, separating them because we were concerned about this reprogramming or migration of funds.

The Air Force vigorously opposed our recommendation, stressing its need for flexibility and ultimately the fence on supply operations was withdrawn, leaving the fence on depot maintenance.

Based on the preliminary data provided by the S&I review, do you agree that funding has migrated from depot maintenance to supply operations?

General FINAN. Yes, sir.

We have moved money back and forth between those accounts. I think basically our problem is, as we have tried to stress, it is a flexibility problem.

When you look at the O&M account, almost 85 or 90 percent of it is fixed cost for salaries, contractual efforts and things like that. So although we don't get specific congressional reductions in the depot maintenance area, we do get large non-programmatic reductions that are levied upon the Air Force.

When we spread those to the field, the supply side usually ends up taking that non-programmatic reduction. Since 90 percent of the supply side is fixed costs, it puts the commander in a bind as to how to meet "must pay" bills and he migrates the money to pay for programs under his responsibility.

Mr. **Murtha**. Don't you have a big backlog of depot maintenance?

General **Finan**. Yes, sir.

Mr. **Murtha**. What is the rate it has grown by?

General **Finan**. It has gone from about $269 million in 1989 to $380 million in 1990.

Mr. **Murtha**. About 40 percent, isn't it?

General **Finan**. Yes, sir.

Mr. **Murtha**. Obviously in the end that is going to affect readiness if you keep taking money out of that side. So we are dancing around here getting by in the short term and this is where it starts. It starts in the area with the least priority and works its way through the system. That is the problem.

Let me ask you, based on the preliminary data provided by the S&I review, does your need for flexibility mean that you underfund supply operations, banking on a migration of depot maintenance money?

General **Finan**. No, Mr. Chairman. We try not to migrate the money. As you know, once we get——

Mr. **Murtha**. It worries me when you start not having enough money in depot maintenance. We started years ago pumping money into spare parts and into flying hours.

I remember when the Air Force wanted to cut them back, we wouldn't let them. We kept their feet to the fire. I can see it starting all over again. It is not a good situation when it comes to readiness. The senior officers believe we can erode readiness at this stage. I don't believe that. I know the Air Force has reduced troop strength, but in my view, we make a mistake when we start eroding those basic issues which are so important to the overall maintenance in the Air Force.

Mr. Miller?

AIR FORCE STOCK FUND

Mr. **Miller**. The Air Force stock fund provides for the financial management inventory control, and distribution of consumable items of supply and low-cost equipment to support both peacetime and wartime operations.

There are two types of funding as we understand it available to the stock fund, appropriated funds to purchase war reserve material and money generated from sales.

A certain level of funding must remain available for use on a daily basis to ensure that bills can be paid. This is called an operating cash balance.

We understand that the Air Force stock fund accounting system cannot produce information that distinguishes between appropriated and operating stock fund cash balances.

Is that correct?

General **Finan**. Yes, sir, Mr. Miller. That is correct. We have to account for those balances separately on a manual basis.

Our automated accounting system will not do that. However, the manual system of reporting allows us to differentiate that.

Mr. **Miller**. Should we have a change and get this separated?

General **Finan**. We haven't seen a necessity for it yet, sir.

Mr. **Miller**. Is there a way to really know what we are doing if we do not have the funds separated?

General **Finan**. Our current procedure is to get a manual report from each of the stock fund divisions and based on that manual report we have been fairly successful in ascertaining where we stand on stock fund cash.

Mr. **Miller**. The current practice is to maintain an 11 day operating cash balance in the stock fund.

If the accounting system cannot distinguish the two types of cash balances, how can the Air Force determine that the 11 days of cash on hand are operating funds and not war reserve funds?

General **Finan**. Again, Mr. Miller, we rely on our manual system of reporting to track that and are required to track and report that operating cash through OSD and they monitor it also.

Mr. **Miller**. Since fiscal year 1986, has the Air Force stock fund experienced less than an 11 day operating cash balance?

General **Finan**. Yes, it has.

In fiscal year 1988, we finished the year with less than one day of operating cash in the stock funds. That is attributed to the funds we have been taking out of the stock funds to finance other things.

In the budget you have before you, we have targeted getting up to 11 days cash again.

Mr. **Miller**. Has the Air Force ever used appropriated fund balances to offset temporary negative operating cash balances?

General **Finan**. Yes, sir, we have. To the extent that you have got appropriated fund cash balances and you have operating fund deficits, they will offset each other.

Mr. **Miller**. In order to keep score, it appears that we do need some way of truly separating the two funds.

How much will it cost to go back to 11 days of cash?

General **Finan**. Roughly one day of cash is equivalent to about $25 million.

Mr. **Miller**. One day?

General **Finan**. Yes, sir.

Mr. **Miller**. When the stock fund refunds money to the O&M account, can you track precisely how the refund was used?

General **Finan**. No, sir. It loses color when it comes into the O&M account.

We have a variety of O&M requirements and it can go for anything from unfunded pay raises, to health benefits, to supply, contractual requirements, it can go for a lot of things.

We could probably tell you in any given fiscal year what specific refund, the kinds of things it was used for, sir.

Mr. **Miller**. It appears that there is some advantage to have not a true accounting, but to have them together, because if this committee or the Congress would require or mandate that certain funds be used for certain purposes, is there any way that you would know that those funds are used for that purpose?

General **Finan**. Yes, sir.

If it was a special interest item, congressional interest item or directed, we would see that it would be used for those items.

Mr. **Miller**. But if the funds were mingled, how could you separate them?

General **Finan**. It would be awfully hard to track looking at the accounting records after the fact.

Mr. **Miller**. The question is, if they are mingled and you had a refund, could you be refunding from the war reserve fund?

General **Finan**. No, sir.

We would not do that. We, as I said, manually track that and would not take down cash reserves from that. The cash for the war reserve is there for bills that must come due at some point in the future. We have ordered the war reserve material or the inventory augmentation material and have to keep that cash available to pay the bills when the materials come in.

Mr. **Miller**. Is the stock fund accounting system data used to make decisions on stock fund pricing?

General **Finan**. Yes, sir.

We try and use that. We use a variety of things. We look at the obligations, the inventory levels, the stock fund accounting system as well as where we stand on the operating cash and then make a pricing decision for a stock fund price that is then stabilized for the entire fiscal year.

POTENTIAL O&M REDUCTION

Mr. **Miller**. If the Federal deficit is greater than projected, DOD will experience a sequestration of funds in order to bring spending in line.

If a deficit is as high as $146.2 billion and the military personnel accounts are exempted, DOD could expect as great as a 19.3 percent across-the-board reduction.

If the military personnel accounts are not exempted, there would be an 11.8 percent reduction.

We all know that this kind of reduction for O&M will be devastating. In your opinion, what would be the effect of a 19.3 percent—a $4.5 billion—reduction in the Air Force O&M budget?

General **Finan**. It would be hard to pinpoint exactly what areas would be impacted. Obviously with such a large portion of our account fixed "must pay" bills, it is going to hit upon everything.

What we did in 1986 is determine a fair share of the Gramm-Rudman reduction. We passed that fair share out to the commanders in the field and let each commander make a determination how best to accommodate those reductions. Obviously each commander has a different mission, a different type of work force and different priorities.

So we would probably do a similar type thing if a Gramm-Rudman reduction came about again. We depend upon our commanders closest to the operations to help us in determining where those cuts would come from.

Mr. **Miller**. I haven't heard that.

We talked about it before and I haven't heard where the buck is passed on, so to speak.

I can't see that that is all bad, because the commanders do have different necessities, and they are in the best position to have the knowledge to know where they can reduce, and not be harmed any more than necessary.

Based on this result, do you believe that the military personnel account should share in the sequestration to lessen the impact on the O&M account? This would mean an 11.8 percent, $2.7 billion O&M reduction.

General FINAN. Sir, that decision has usually been made in the past at the highest level and would probably be done so again.

I wouldn't care to voice my views on that. Most of your military appropriation is a "must pay" bill, salaries, and items such as that and to not exempt them would mean a sure force reduction.

That would have to be taken into consideration in any determination as to whether you exempt military personnel or not.

Mr. MILLER. Would your O&M budget, which has been reduced by $4.5 billion, be capable of adequately supporting the current force structure?

General FINAN. No, sir; I don't think we would be able to. Something would have to give.

We couldn't maintain the same OPTEMPO, the same level of civilian hiring, the same contractual efforts, the same depot maintenance efforts without—with that kind of reduction.

Mr. MILLER. Thank you very much.

Thank you, Mr. Chairman.

Mr. MURTHA. Thank you very much, General.

General FINAN. Mr. Chairman, it has been a pleasure to be here with you. I look forward to working with you in the future.

Mr. MURTHA. We have some other questions for the record and we also have some questions for the record from Congressman Austin Murphy. The Committee is adjourned until 1:30 p.m. Tuesday.

[CLERK'S NOTE.—Questions submitted by Mr. Murtha for Mr. Murphy and the answers thereto follow:]

OPEN COMPETITION

Question. General, as I understand it there is an office within the Air Force called the Competition Advocate General and its function is to save tax dollars by insuring that open compettiton prevails in Air Force procurements.

When the Air Force rejects private industry bids and keeps the work in-house, what specific steps are taken by the Air Force to monitor the in-house costs, and what corrective measures are taken when the in-house costs are found to exceed the original estimate? Is the work then turned over to private industry?

Answer. Before addressing the question, it should be explained that the Air Force Commercial Activities (CA) Program is not conducted within the purview of the Office of the Air Force Competition Advocate, although the CA Program definitely espouses the principles of open competition. The CA Program is conducted in accordance with OMB Circular A-76, Performance of Commercial activities. The Circular sets forth procedures for using competititon between public and private sector sources of commercial services to improve the services provided and reduce their cost. With regard to the question, the use of the term "rejects" is not appropriate; the Air Force accepts all bids that are considered responsive to the solicitation. Only the most cost effective and responsive bidders will be awarded contracts in the CA Program. Steps taken by the Air Force to monitor costs within that program include:

Closely monitoring Performance Work Statement (PWS) changes.

Approving additional manpower only for valid increases in PWS workload requirements

If a base exceeds its original in-house estimate, normally a new cost comparison is required. The work would be turned over to a private contractor only as a result of a cost comparison.

Question. Has there been a consistent pattern on the part of the Air Force, particularly the Air Force Reserve, of continuing to provide services in-house as opposed to awarding contracts to outside bidders?

Answer. Sixty-eight percent of all Air Force cost comparisons have gone contract since 1979. The reason these competitions resulted in contractor operations is that the contractors submitted the most cost effective and responsive proposals. In the remaining 32 percent, the in-house proposals were more effective and efficient. All organizations seek to obtain the most efficient operation at the least cost. In the case of the United States Air Force Reserve [USAFR], the in-house bids developed by AFRES have successfully competed at six locations against contractor bids.

Question. If the system is biased, insuring that services remain in-house, wouldn't you expect private bidders to stop wasting their time and money preparing and submitting bids? Won't that inevitably result in less competition, less efficiency, increased costs and a waste of tax dollars? Hasn't that already happened with respect to Air Force Reserve contracts?

Answer. The CA Program has set up a highly competitive process through which the Government and the private sector try to achieve a most efficient use of tax dollars. In the six cost comparison studies completed so far by the USAFR, the Government work forces were reduced in all cases, ranging from 25 to 52 percent of their original sizes. In their two most recent competitions, the inhouse bids were approximately $200,000 and $64,000 less than the next lowest contractor bids. We are not aware that any of the circumstances mentioned in the question exists in the USAFR's CA Program.

[CLERK'S NOTE.—End of questions submitted by Mr. Murtha for Mr. Murphy. Questions submitted for the record and the answers thereto follow:]

FISCAL YEAR 1990 BUDGET AMENDMENTS

Question. The fiscal year 1990 budget request for Air Force O&M is $24.3 billion, 25 percent of the Air Force's total budget request. This is a $1.5 billion—7.1 percent—increase over the fiscal year 1989 enacted level and represents real growth of approximately 3.7 percent.

The new administration has proposed no real growth in the 1990 Defense budget. For O&M, Air Force, this would mean a reduction of approximately $861 million.

What kind of O&M tail is experienced with a reduction in military personnel? For the record, please provide the percentage of

O&M that is considered the "tail" and could be reduced for each 1,000 military personnel.

Answer. There is not a standard percentage of O&M that could be adjusted in conjunction with changes in military manpower. The O&M impact of force structure actions varies by the assigned duties and locations of the forces affected.

O&M REAL GROWTH AND THE FUTURE

Question. A recent CBO report stated that O&M and Military Personnel costs, also known as operation and support (O&S) costs, must experience at least a 2.3 percent real growth each year to support new equipment entering the force.

Additionally, CBO stated that there are three general approaches to hold down these costs: reduction of military forces, efficiencies, and acceptance of readiness reductions and risks.

In your opinion, are there any new programs that could be implemented in 1990 to improve efficiencies and reduce O&S costs without seriously reducing readiness?

Answer. The Air Force currently has programs that encourage management improvement and reduce O&S budgets and costs. The Air Force will pursue any new program/incentive that will make improvements in this direction.

DEPOT MAINTENANCE BACKLOGS

Question. In fiscal year 1990, the Air Force is budgeting for a $3.5 billion depot maintenance program and is anticipating a $364 million backlog. This backlog figure is an increase of 40 percent over the fiscal year 1989 level.

Why is there a 40 percent increase in the backlog of depot maintenance?

Answer. There are three reasons for the increase in the backlog of depot maintenance. First, the need to balance overall Air Force resources in a constrained fiscal environment results in funding depot maintenance at less than 100 percent of current requirements, but adequate to maintain readiness for our force structure; second, requirements have grown in two areas: Interim Contractor Support (primarily classified programs, ALQ-131, F-16 C/D Block 40) and embedded software support for operational flight programs; and third, carry-over for fiscal year 1989 is unfunded. All other stand-alone requirements are either flat or trending downward consistent with OPTEMPOs and force structure adjustments.

Question. What is the cause for the ever-changing Depot Maintenance backlog figures? For example, the original fiscal year 1988 depot maintenance backlog figure was $150 million. The next year, this 1988 estimate became $819 million. When the year ended, the actual 1988 backlog figure was $269 million—close to the original plan. What happened between the submission of the 1989 budget and the end of the year.

Answer: The reason that the fiscal year 1988 backlog estimate changed significantly is due to a combination of factors. First, the original fiscal year 1988 estimate ($150 million) was based on the fiscal year 1988 requested funding which was subsequently reduced by Congress. Second, we changed the approach to requirement/

backlog during the fiscal year 1989 Amended Budget which increased our requirements estimate at the same time funding was being reduced. This resulted in an $819 million backlog estimate (later reduced to $717 million because $102 million was added back to depot maintenance to comply with Congressional direction). The current estimate of $274 million is based on the best estimate of the backlog actually generated during fiscal year 1988 at the time of budget preparation as verified by AFLC. Unlike prior years, AFLC verified the actual on-hand backlogs vice computer projected requirements. The reasons that the fiscal year 1988 backlog estimate dropped primarily were due to: work arounds/transfers, reductions to flying hours/inventory (i.e., F-4, GLCM), better than estimated reliability on some new equipment, unit sales price decreases, and net demand/factor changes. Certified backlogs are:

[In millions of dollars]

	Maint	Mods	Total
Fiscal year			
1988	269.3	4.7	274.0
1989	260.4	8.6	269.0
1990	364.4	16.7	381.1
1991	453.9	20.4	474.3

Question. What equipment is not receiving its required maintenance? How has this affected readiness levels—are any units not meeting their readiness ratings because of the depot maintenance backlog?

Answer. The backlogs in aircraft are primarily nonessential depot economy tasks and organizational and intermediate work. In engines, we plan to reduce serviceable engine stock levels to 50 percent of requirement and put priority on exchangeables and module repair which will provide the most readiness for the available dollars. The majority of the backlog is in exchangeables where we fully fund the basic operating requirement but only approximately 25 percent of the base safety levels—shelf stock items—and no depot safety level. Intensive management attention is being applied to critical item repair. To the extent safety level assets are unavailable when required, the field units will be forced to increase cannibalizations, WRM withdrawals, and increase overtime in order to maintain readiness. The Air Force program will support the planned flying hour program with these workarounds.

Question. Are the field activities pushing work from intermediate maintenance into depot maintenance as a way of meeting budget constraints?

Answer. No, organizational and intermediate level maintenance is not being pushed to depot as a means to meet fiscal constraints.

Question. What are the short term and long term effects of carrying such a large backlog of depot maintenance from one year to the next?

Answer. The short term effect of carrying backlog from one year to the next is relatively small. Readiness ratings have not yet been degraded as current OPTEMPO levels have been supported through intensive management of critical items, increased cannibalizations, and continued draw-down of sustainability stocks. These management practices have allowed the Air Force to meet baseline requirements but defer protection level replenishment. In the long term, these practices are projected to result in depletion of safety levels, WRM stockage, and eventually will be reflected in aircraft readiness. As the unfunded requirement is carried over from year to year, the backlog figures will continue to grow.

DEPOT MAINTENANCE & SUPPLY OPERATIONS

Question. Please provide the fiscal year 1989 budget request, appropriation, and current estimate, and the fiscal year 1990 budget request for depot maintenance and note which Program 7 subcategories fall under depot maintenance.

Additionally, please provide the fiscal year 1989 budget request, appropriation, and current estimate, and the fiscal year 1990 budget request for supply operations and note which Program 7 subcategories fall under supply operations.

Answer. Shown below are the requested figures for depot maintenance and other supply operations. Depot maintenance is comprised of five subcategories which fall within the budget activity group: Depot Purchased Equipment Maintenance (DPEM), Interim Contractor Support, BIG SAFARI, Other Logistics Activities, and DPEM Modernizations. All subcategories except Modernization fall within the Congressionally directed Depot Maintenance floor. Other Supply Operations is comprised of a number of budget activity groups, including: Supply Depots, Inventory Control Points, Procurement Operations, Base Operating Support, Telecommunications and Command Control, Logistics Support Activities, Industrial Preparedness, Command, Aerospace Maintenance and Regeneration Center, Acquisition and Command Support, Test Ranges, Transportation, Commissary Operations, Environmental Restoration and Industrial Fund and Stock Fund Support.

[In millions of dollars]

	Fiscal year 1989 request	Fiscal year 1989 appropriations	Current estimate	Fiscal year 1990 request
Depot maintenance	2,862.6	2,914.9	2,914.9	3,007.5
Modernizations	243.4	233.0	219.6	245.9
Subtotal	3,106.0	3,147.9	3,134.5	3,253.4
Supply operations	3,620.8	3,593.4	3,791.8	4,015.5
Total BA 7	6,726.8	6,741.3	6,926.3	7,268.9

The increases between the fiscal year 1989 appropriated and the current estimate are due to functional transfers (+157 million), price changes (+71 million), and program decreases (−43 million). Changes between the fiscal year 1989 current estimate and the fiscal year 1990 request are due to functional transfers (−96 million), price growth (+401 million), and some programmatic increases (+37 million).

The fiscal year 1989 current estimate for depot maintenance reflects the Air Force commitment to meet the Congressionally directed Depot Maintenance floor of $2,914.9 million. No finds will be moved from this area without the prior approval of Congress.

B-1B TRAINING PROGRAM AND FLYING HOURS

Question. On March 28, 1989, the Air Force Strategic Air Command (SAC) suspended training flights of the B-1B bomber due to fuel leaks in the plane's wing tanks. Even before this suspension of training flights, GAO had reported that most B-1B pilots assigned to the bombardment squadron at Dyess Air Force Base, were unable to complete all of their training requirements for the 6-month training period which ended June 30, 1987. According to GAO this was primarily due to the lack of aircraft availability and parts shortages.

How many B-1B pilots were certified as mission ready before the suspension of training flights? What percentage is this of the total number of B-1B pilots?

Answer. The number of mission ready B-1B pilots at the end of March, 1989, was 69. This is 89 percent of the B-1B pilots with a mission readiness requirement.

Question. What effect will the suspension of training flights have on the number of pilots certified as mission ready? What effect does the suspension have on your fiscal year 1989 training budget?

Answer. The temporary suspension of training flights was of a short enough duration that the number of mission ready pilots had not changed (69) as of April 19, 1989. However, the percentage dropped from 89 percent to 84 percent since the number of pilots requiring mission ready status increased as a result of Combat Crew Training Squadron production. There should be little impact on the current training budget since SAC plans to complete the fiscal year 1989 flying hour program.

Question. At the time of the training flight suspension, what was the mission capable rating of B-1B crews?

Answer. Ninety percent of the bomb squadron crews were mission ready at the end of March, 1989.

Question. SAC has reduced the planned number of mission ready crews slated to complete training by December 1988 from 1.31 per aircraft to 1.1 per aircraft. What effect does this change have on your fiscal year 1989 budget? Has this change been taken into account in your fiscal year 1990 budget request?

Answer. The temporary leveling of the B-1B crew ratio at 1.1 had no effect on the fiscal year 1989 budget as the budget was built for this crew ratio. The 1990 budget is also built for a 1.1 crew ratio. While the final crew ratio is planned to be 1.31, the build from 1.1 does not start until fiscal year 1991.

FISCAL YEAR 1989 READINESS INITIATIVES

Question. In fiscal year 1989, the Appropriations conferees included $69 million for readiness items, including the cost of Hurricane Gilbert clean up and repair. At the time of the 1989 conference, the Air Force was unsure what would be the total cost of this effort, with estimates ranging from $25-$50 million.

Has the Air Force completed the clean up and repair from Hurricane Gilbert? If not, when will it be completed?

Answer. Clean up of all debris and nonrecoverable assets is complete, but repairs to some buildings have not been completed and work will continue until fiscal year 1991. The military construction of a warehouse which replaces five of the severely damaged WWII era buildings will not begin until fiscal year 1990, and is estimated for completion in fiscal year 1991.

Question. What is the current estimate of the clean up and repair of the damage?

Answer. The current estimate for the O&M portion of the total clean up and repair of the storm damage is $23 million. There will be a military construction project for $18.5 million to replace five severely damaged WWII era buildings with one modern warehouse. In addition, over $5.1 million of procurement funds are required for initial equipment items for the warehouse.

Question. What is the total O&M requirement and what is the total Military Construction requirement?

Answer. Total O&M expenses for Hurricane Gilbert will be approximately $23 million. The Military Construction funds required for the new warehouse will be $18.5 million; a reprogramming request with sources has been submitted for this requirement. In addition, $5.1 million procurement funds are required for initial outfitting equipment of the warehouse and are included in the fiscal year 1990 Other Procurement, Air Force Budget under Other Base Maintenance and Support Equipment.

Question. Please provide a break out of the additional $69 million provided for readiness items? Has this funding been annualized into the fiscal year 1990 budget? Please provide the page numbers of the justification books that show either the annualized effect of this amount or the reduction of this amount based on a "one-time" year 1989 cost.

Answer. The $69 million provided for readiness items was allocated to a number of budget activity groups, predominately for medical support ($25 million), base operations and other support ($21 million), and repairs associated with the Hurricane Gilbert clean-up ($23 million)

However, the increase for the $25 million for medical readiness has been annualized in the fiscal year 1990 President Bush Budget Amendment, and will enable $50 million of CHAMPUS savings in the outyears. The $23 million allocated for repairs of Hurricane Gilbert damage, is a one-time cost and its not annualized into the fiscal year 1990 budget. The balance of the readiness increase was provided for base operating functions.

OPERATIONAL SUPPORT AIRLIFT PROGRAM

Question. On September 16, 1988, the GAO released a report on the Air Force Operational Support Airlift Program. GAO reviewed DOD policies and procedures concerning the Services' use of military operational support airlift (OSA) versus commercial aircraft for the transportation of DOD military and civilian personnel.

The GAO found that the Services' have not complied with DOD policies and procedures and their own management criteria for the use of OSA. This has led to an increase in DOD transportation costs.

The GAO issued this report in September of 1988, but by March of 1989 the Department had still not taken action to implement the GAO recommendations. What is the hold up on implementing the recommendations?

Answer. The Air Force has moved to implement the recommendations of the GAO. The Air Force regulation which governs OSA, AFR 60-23, Operational Support Airlift Management, is currently at the printers. The Air Force reworded this regulation to insure compliance with DOD regulations. These changes should insure that the OSA priority system is based on mission impact and GAO recommendations are fully implemented. The Air Force Vice Chief of Staff has also directed that travelers adjust their schedules whenever possible to maximize passenger travel, and directed the major air commands to explore and implement automated scheduling programs as soon as possible. To this end, the Military Airlift Command has developed a Statement-of-Need and a Communication-Computer Systems Requirements Document to upgrade/replace present automation Capability of interfacing with both the Navy and Army OSA systems.

Question. Will these recommendations be in effect for fiscal year 1990 and does the budget include a reduction to the level of OSA?

Answer. With the exception of additional automation systems, these recommendations will be in effect for fiscal year 1990. Funding must still be identified for the automation system. The budget does not include a reduction to the level of OSA but increased OSA passenger utilization results in a more cost-effective alternative to commercial travel. The peacetime mission of Air Force OSA, which defines the overall program level, is the seasoning of new pilots to maintain the OSA wartime crew ratio. Since the wartime crew ratio of OSA has not changed, the number of new pilots entering the OSA system has not diminished, and consequently the funding level for OSA has not been reduced.

Question. Please provide the Committee with the OSA funding level for fiscal years 1987, 1988, 1989 (current estimate) and 1990 (budgeted).

Answer. OSA funding for the years requested is:

Fiscal Year:	*Millions*
1987	$80.4
1988	72.0
1989	78.7
1990	89.4

Fiscal year 1990 reflects increased contractor logistics support to provide required safety modifications for the OSA fleet of C-9, C-12, C-21, C-22, and C-23 aircraft. These modifications include navigation equipment changes in the C-12 to correct a problem causing incorrect/unsafe navigation information, and kits to stop engine failures in the C-21.

REDUCTION TO UNIFIED AND SPECIFIED COMMANDS

Question. In February 1988, the DoD IG reported that the staffing of the Unified and Specified Commands could be reduced by 7,309 military and civilian personnel. After review of the IG's recommendations, the Services responded that only 2,990 spaces could actually be reduced.

Of the 2,990 spaces eliminated from the Commands, 2,224 will be used to increase staffing of combat units and medical activities. This will result in a net reduction of 746 spaces to be accomplished from fiscal year 1989 through fiscal year 1991. The Air Force will take 97 percent of this net reduction.

Since DOD made the decision after the budget had been submitted, the effect of the 746 net reduction has not been shown in the fiscal year 1990 budget. How many military and civilian personnel will be reduced in fiscal year 1990 and what are the budgetary savings associated with this reduction?

Answer. The DOD decision to make these reductions was made prior to the budget being submitted to Congress and the net reductions were included in the fiscal year 1990 budget submission.

In fiscal year 1990 the total cummulative net reduction will be 584 military and 112 civilian spaces for a total cumulative budgetary savings of $30.607 million ($28.442 mil, $2.165 civ). This reduction includes 312 military and 8 civilians in fiscal year 1989 and an additional 272 military and 104 civilians in fiscal year 1990.

Question. How many military and civilian personnel will be reduced in fiscal year 1991 and what are the budgetary savings associated with this reduction?

Answer. Through fiscal year 1991 the total cumulative military and civilian reduction will be 616 military and 131 civilian spaces for a total budgetary savings of $64.447 million ($57.895 mil, $6.552 civ) in fiscal year 1991. This total savings includes a reduction of 312 military and 8 civilians in fiscal year 1989, an additional reduction of 272 military and 104 civilians in fiscal year 1990, and a final reduction of 32 military and 19 civilians in fiscal year 1991.

GOVERNMENT-FURNISHED MATERIAL

Question. On March 18, 1988, the GAO released a report on Air Force policies, procedures, and practices for providing and controlling government-furnished material (GFM). GAO found, among other violations, that the Air Force violated the existing FAR, DOD, and Air Force policies by routinely providing GFM to contractors without adequate evaluation or justification.

Have you seen this GAO report and have you implemented the recommendations the GAO put forward?

Answer. Yes, we have seen the GAO report and the majority of the recommendations have been fully implemented. As noted in the final report, DOD and the Air Force agreed with GAO recommendations and also emphasized that compliance with existing regulations and directives was required. The Air Force recognizes the importance in the proper control and administration of GFM, and is continually trying to improve on this process. The Air Force has directed, and reiterated in a December 1, 1988 letter to all major command and separate operating location contracting offices, the importance in enforcing existing regulations and policies requiring documentation and justification for using GFM. In addition, we have stressed the importance of conducting comprehensive annual surveys of contractor's property control systems. Controls have been implemented to validate all contractor requisitions, before they are filled, at both the wholesale and retail levels. Finally, Headquarters Air Force Logistics Command has instituted numerous enhancements to the Stock Control and Distribution System to further improve the accuracy and completeness of the data base.

Question. Do you plan to have the recommendations in place in fiscal year 1990 and if so, are the savings from such an action reflected in the budget request?

Answer. The majority of the recommendations have been implemented. Once again, the Air Force is extremely aware of the importance of strict controls over the use of GFM. We must stress that much of the control lies in the continual awareness of existing regulations and policies concerning GFM by contract administrators, contracting personnel, contractors, and other government employees who deal with GFM. The Air Force is currently pursuing alternate methods of implementing MCA controls at the retail level. We feel that procedures already exist which would allow the Air Force to validate retail level contractor requisitions before they are filled. With the exception of the ongoing effort to improve the Air Force Logistics Command's data base, all other recommendations will be in place in fiscal year 1990. Improvement of the data base is ongoing as refinements and enhancements are continually initiated.

Neither the GAO nor the Air Force know how to quantify any benefits and probably can't identify specific savings associated with the recommendations. However, we do know that any savings may possibly accrue in the expense material area, be limited in scope, and only apply to the extent that excess material was not returned to the Air Force inventory and reused. Investment items are accountable, even when provided to a contractor as GFM; the bottom line being that the Air Force would not buy an asset to replace one released to a contractor. All policy and corrective actions (except the retail level issue) have been implemented and the fiscal year 1990/1991 budget submission reflects those changes.

CARGO AIRCRAFT FLYING HOUR PROGRAM

Question. On September 7, 1988, the DOD IG issued an audit of cargo aircraft flying hour programs. According to the IG, the factors used in the Military Airlift Command's (MAC) cargo aircraft models overstated the flying hour requirements for C–5, C–130, and C–141 aircraft for fiscal year 1988. This situation lead to a $26.5 million overstatement of cargo aircraft flying programs in 1988. The Air Force claims that the savings from an overstatement of requirements was used to offset other training requirements and that subsequent budget amendments reduced any savings.

Are you familiar with the DOD IG report? If so, do you agree with the findings?

Answer. Yes, the Air Force responded to the DOD IG report on Cargo Aircraft Flying Hour Programs. Although the Air Force agrees with the report on some items, it does not agree with majority of findings and recommendations in the report.

Question. Have the models used to develop C-5, C-130, and C-141 flying hours been reevaluated in light of the IG report? If so are the cost savings reflected in fiscal year 1990 budget request?

Answer. Yes, the models were reviewed and revised beginning in June of 1987 to incorporate some of the recommendations briefed by the audit team even before the report was published. Cost savings associated with the revised models have been incorporated in the President's Budget.

Question. Please provide information on how any fiscal year 1988 savings which resulted from overstated cargo aircraft flying hour programs were applied to other requirements. Please be specific on which unfunded training requirements received additional funding. Are these training requirements fully funded in the fiscal year 1990 budget request? Which budget amendments affected reduced savings from overstated hours?

Answer. In its response, the Air Force agreed that a few training areas were overstated in the models used at the time of the audit. In the C-5, these areas included both air refueling sorties and the mix of experienced and inexperienced pilots who require training. In the C-141 the Air Force ageed that some airdrop training events were overstated as well as the requirement for air refueling sorties and the mix of experienced and inexperienced pilots requiring training. The Air Force took these overstated requirements and funded previously validated events that needed flying hours. In the C-5 this included special operations training and combat aircrew training. In the C-141, additional airdrop training, combat aircrew training, pilot qualification upgrades, and alert aircrew proficiency flying were funded. The Air Force did not agree that the C-130 program had overstated requirements, and no adjustments were made. With the exception of combat aircrew training, these events are fully funded in the fiscal year 1990 budget. Combat aircrew training was a new training program designed to provide aircrews with better survivability techniques in a combat environment. This program was in the first stages of a developmental cycle at the time of the GAO audit. Subsequently the development has been completed, and additional funds will be requested to fully fund all aspects of the training program after a complete review by the Air Force has been accomplished. The overstated models were adjusted downward in the fiscal year 1990-1991 President's Budget and with the exception of the combat aircrew training the training requirements were funded.

AIR FORCE INVENTORY ACCURACY PROBLEMS

Question. On May 12, 1988, GAO evaluated the Air Force inventory accuracy. The GAO found that although the Air Force had implemented a variety of policies to improve the Air Force Logistics Commands' (AFLC) inventory management practices, accuracy problems continue to exist.

The recommendations made by GAO include the need for research into the causes of inventory discrepancies. Has the Commander of AFLC implemented new guidelines for investigating the underlying causes of inventory discrepancies? If not, why not?

Answer: The present guidelines for investigating the underlying causes of inventory discrepancies are outlined in DODI 4000.25f-2-M. Specifically, they require causative research on all variances greater than $16,000 and on a sample basis for variances under $16,000. Air Force Logistics Command implemented that guidance in September 1987 with interim message change 87-2 to Air Force Logistics Command Regulation (AFLCR) 67-9. That guidance is being formalized in a revision to AFLCR 67-9 presently scheduled for release at the end of May 1989. The recommendation in the May 1988 GAO report states that AFLC should, "continue emphasizing the need for effective causative research that determines underlying causes of inventory discrepancies and systemic problems. Variances currently under monetary criteria for causative research should be sampled as further input to identifying and correcting systemic problems." AFLC is in compliance with that recommendation.

Question. Another recommendation made by the GAO was that the Commander of AFLC should reevaluate accounting adjustment policies, especially the policy of not adjusting discrepancies under $5,000. Has the Commander of AFLC reevaluated the accounting adjustment policies? If not, why not?

Answer. The Air Force Logistics Command has recently concluded its evaluation of the research and adjustment policy that defers the correction of potential variances under $5,000 and which represent less that 10 percent of the units on record. The potential variances must meet both the dollar and unit criteria. The results of AFLC's study were briefed to the Joint Physical Inventory Working Group on April 20, 1989. The Joint Physical Inventory Working Group is chaired by Defense Logistics Standard Systems Office and is comparised of representatives from OSD and all the Services. The results of the study concluded that the research and adjustment policy: First, allows the Command to concentrate limited inventory resources on variances with the largest potential payback; second, minimizes impact on readiness by insuring a high degree of customer support; and third, minimizes adverse affects on inventory management by concentrating efforts on those variances which have a higher potential to impact customer support decisions.

Question. The GAO report was supplied to the Air Force in May of last year. As of March of this year the recommendations had not been implemented. Why has the Air Force not initiated the GAO recommendations?

Answer. The response to the two preceding questions on specific recommendations in the May 1988 GAO report indicate that the Air Force is responsive to improving inventory control and has acted upon the GAO recommendations.

Briefly, on the subject of causative research, that area continues to receive emphasis. The recommendation remains technically open pending the official publication of the guidance in Air Force Logistic Command Regulation 67-9, but interim guidance had been issued in September 1987. On the subject of research and adjustment policies, AFLC has recently completed their evaluation and briefed the study to the Joint Physical Inventory Working Group on April 20, 1989.

REAL PROPERTY MAINTENANCE

Question. The fiscal year 1990 budget request includes a $1.7 billion request for real property maintenance funding, a 13 percent increase over the 1989 funding. Even with this increased level of funding, the Air Force will experience an increase of 15 percent in the backlog, anticipating a $1.2 billion backlog in 1990. Since 1984, the funding for the Air Force's real property maintenance requirements has increased by 8.6 percent. What is the reason for the increasing level of real property maintenance backlogs?

Answer. Even though the Air Force has submitted a budget which supports a 5 percent real growth (when the impact of inflation and the foreign curency rate change are taken into account) in real property maintenance funding in the fiscal year 1990 Reagan request from the fiscal year 1989 level, annual facility deterioration continues at a pace faster than the maintenance program we can afford. Unfortunately, due to constrained budget authority, we are unable to provide sufficient funds to stop the growth of the backlog from fiscal year 1988 through fiscal year 1991. The last year we were able to actually reduce the backlog of maintenance and repair was in fiscal year 1987 when the level was $692 million, a 12 percent reduction from year end fiscal year 1986. The reduced funding for Air Force Operation and Maintenance appropriaton in fiscal year 1988 and fiscal year 1989 compared to fiscal year 1987, has had a corresponding adverse impact on the RPM contract program.

Question. What are the long-term and short-term effects of carrying such a large amount of backlog maintenance each year.

Answer. A one year backlog—$700-$800—for deferred facility maintenance is a reasonable backlog to carry from year to year; the fiscal year 1990 backlog exceeds $1.2 billion. Facilities deteriorate at an accelerated rate when repairs are delayed; corrective action for long term deferrals are more costly. Also, a growing backlog indicates that our operability/sustainability base is eroding. Sustaining the life of our physical plant is especially important to the Air Force. Unlike the other Services, the Air Force will operate from fixed bases during war. Much of our plant, such as hangars, aircraft shelters, runways, missile control facilities, is the supporting structure for our readiness and sustainability. Therefore, the condition of our facilities directly affects our ability to conduct effective operations.

Question. Does the Air Force verify the backlogs each year and do these verifications include a review of installations on the base closure list?

Answer. Backlogs for each command are recorded at year end in an Air Force contract reporting system. The backlog consists of only those facility contracts for maintenance and repair work which were deferred for accomplishment in a previous fiscal year due to a lack of funding. Each fiscal year a corporate facilities board at installation level reviews and prioritizes facility contracts for the current execution year. Any backlogged facility work which is deferred into the future is reviewed for validity. The backlog reported in the fiscal year 1990-1991 President's Budget has not been adjusted for the impending bases closures. As closure decisions are finalized, adjustments will be made to the backlog level.

INDUSTRIAL FUNDS

Question. In fiscal year 1988, the Air Force transferred $17.4 million out of the Industrial Fund to the O&M accounts to offset O&M reductions. In fiscal year 1989, the Air Force is again planning to transfer $2.3 million from the Fund to O&M. In fiscal year 1990, the Air Force is planning a passthrough of $122.7 million from O&M to the Industrial Fund to offset losses in the Fund.

What would be the effect on the Industrial Fund if the passthrough did not occur in 1990? What would be the effect if the 1990 passthrough was stretched into 1991 with $61.5 million passed through each year?

Answer. The effect of eliminating the Air Force budgeted passthrough of $122.7 million in fiscal year 1990 may drive the Air Force Industrial Fund into a negative budgetary resource situation which is comparable to bankruptcy in the civilian business world. The current fiscal year 1989 budgetary resource position is extremely precarious and may require unbudgeted passthroughs to maintain Air Force Industrial Fund solvency. The fiscal year 1990 passthrough of $122.7 million will serve two purposes. These are to lessen the large accumulated operating loss by approximately one-half and to improve the budgetary resource position in order to strenthen the financial well being of the Air Force Industrial Fund. Lack of sufficient budgetary resources would severely curtail the Air Force's industrial flexibility to meet depot maintenance and airlift program commitments and requirements. Continued financial impediments will prove disruptive to the efficient use of resources so necessary in an era of severe fiscal constraint. Based on the aforementioned, the Air Force strongly recommends the total budgeted passthrough be permitted to take effect as 50 percent—$61.5 million—would leave the Air Force Industrial Fund on the brink of insolvency. The $122.7 million will place the fund on sound financial footing and provide the operating cash to permit it to operate as it was designed to.

Question. Which O&M account(s) is the source of the 1990 passthrough?

Answer. The fiscal year 1990 passthrough is programmed in Major Force Program 7, in the active Air Force O&M appropriation.

Question. In the case of passthroughs, only the O&M account is affected. If the rates are increased, all customers, including RDT&E and Procurement are affected. By using passthroughs is the Air Force allowing the O&M accounts to fund the total effect of operating losses, when all customers should be sharing equally in the pain?

Answer. The active Air Force O&M account currently funds all passthroughs—losses—to the Air Force Industrial Fund, but conversely is the recipient of all transfers--profits. Transfers and passthroughs generally occur only between an Industrial Fund and it's parent Service's O&M appropriation (the primary customer of the Industrial Fund). In fiscal year 1990 about 67 percent of all new customer orders are planned to come from the active Air Force O&M account with the remainder spread over many other appropriated fund customers. Since this fiscal year 1990 passthrough was programmed budget lead time away, all Air Force appropriations have already effectively paid for their fair share of the costs.

Question. Is the Air Force subsidizing the industrially funded activities and their customers by budgeting for passthroughs instead of raising the rates?

Answer. Budgeting for passthroughs in lieu of raising rates is a DOD policy contained in Chapter 82, paragraph A.2.d., DOD 7220.9-M, the DOD Accounting Manual. Reference policy is quoted below for your information:

> d. Cost Recovery: Industrial funds operate on a break-even basis over the long term. Customer rates are established on an end product basis whenever feasible. Such rates are established annually, on a fiscal year basis. Rates are required to be established at levels estimated to recover the cost of products or services to be provided, as well as approved surcharges. Profits and losses, when they occur, are not returned or recouped, respectively, through rates charged customers. Profits, when they occur, are required to be transferred to the parent Service's active component operation and maintenance appropriation as a nonexpenditure transfer. Similarly, losses are required to be recouped through the collection of a payment (called a passthrough), from the parent Service's active component operation and maintenance appropriation.

So basically, the Air Force is simply paying money into the industrial fund to compensate for previously paying rates which were too low to recover all industrial fund costs.

TRANSFER OF LINE ITEM MANAGEMENT TO DLA

Question. When the Air Force is faced with O&M budget reductions and constraints, it often reviews the number of items which it manages. The result can be that items, mostly consumable items, are transferred to the DLA. In fiscal years 1988 and 1989 did the Air Force transfer the management of any items to DLA?

Answer. Items transfers between Services and DLA are not accomplished to offset budget reductions and fiscal constraints. Rather procedures are regulated by mutually agreed upon decision criteria contained in DOD regulations. Essentially it is DOD policy that DLA will manage all consumable items except those that are weapon system sensitive and require special management that can only be provided by the Services. Basically the process occurs when the existing item manager proposes transfer of management responsibility sometime during the item's life based upon the regulation criteria. This transfer can occur either way, from the Service to DLA or from DLA to the Service. If the gaining activity does not believe that the item meets the criteria it can reject the transfer. Item transfers do not normally take place for 180 days after notification so they are not particularly useful as a workload strategy nor ultimately as a short-term budget offset action. The Air Force inventory (as DLA's) is constantly adding, transferring, and deleting items so any point in time estimate is a "net" result of multiple actions. Transfer actions will continue to occur based upon established DOD criteria. Over the last three years DLA has identified to the Air Force about 230,000 items currently under Air Force management for potential transfer to DLA. To date we have reviewed

186,000 of these items and recoded for DLA management approximately 15 percent or about 29,000 over the three year period transferred to DLA. Based upon the composition of the current Air Force inventory of "active" items (defined as those items where a demand has occurred in a 2 year period), this transfer equates to less then 2 percent annualized of the consumable inventory or about 1 percent of the total "active" item inventory.

Question. If so, did you experience a decrease in supply operations workload and funding.

Answer. Item management transfer is not a particularly useful and representative indicator for workload strategy and resultant funding requests, primarily because of the timeframe required to effect a transfer (approximately 180 days) and the relationship of the transfer activity to the total Air Force inventory (about 1 percent). In fact, the number of consumable items in the "active" inventory has actually increased, despite this transfer activity, from 582.9 thousand in fiscal year 1988 to 584.0 thousand in fiscal year 1989 and will continue to grow to 587.1 thousand in fiscal year 1990. Increased provisioning for new systems entering the inventory (e.g., C-[illegible]7, B-1B and Peacekeeper missile) as well as new parts for existing systems (e.g., F-100-PW-220 and F100-PW-229 aircraft engines) has accounted for the increase in the consumable item inventory. In addition, the number of requisitions for consumable items has also increased (up 33 percent over fiscal year 1988) and thus further negates realizing any decreases to the supply operations workload and budget request based upon the transfer program.

Question. Are you planning any such transfers in 1990 and if so, is this reflected in your budget request?

Answer. In fiscal year 1990 the Air Force will continue to transfer consumable items to the Defense Logistics Agency, as well as receive return coded items from DLA, in accordance with criteria established by the Defense Integrated Materiel Manual for Consumable Items, DOD 4140.26-M. With new provisioning as well as retention of weapon system unique consumable items, we do not anticipate any reduction in total workload for consumable items. Additionally, the total number of line items classified as "service specific" for the Air Force has steadily increased since fiscal year 1984. Thus our current budget request is based upon this total number of line items managed, accounting for the transfer program as well as other program requirements.

JAPANESE BEETLE SUPPRESSION

Question. In fiscal year 1989, the Appropriations conferees included a $1 million for the suppression of a Japanese beetle infestation on Terceira Island in the Azores. What is the status of the Air Force program to carry out the direction of the conferees?

Answer. The Air Force and the U.S. Department of Agriculture (USDA) signed in March 1989 a Memorandum of Agreement on a Japanese Beetle control program in the Azores. USDA will be conducting the program in cooperation with the Portuguese government. The Air Force agreed to advance the $1 million to USDA and is finalizing this transfer. The Air Force will continue to be involved in this program, particularly in the transfer of funds, shipment of materials and coordination on USDA program plans and budgets.

SUPPLY OPERATIONS

Question. The Air Force fiscal year 1990 budget request for supply operations is $1.2 billion. This includes $374 million for the depots, $648 million for inventory control points, and $235 million for procurement operations. This is a four percent increase over the fiscal year 1989 level. What is causing the increase in the cost of supply operations?

Answer. Of the four percent increase identified in the Air Force supply operations fiscal year 1990 budget request, 3.3 percent is price growth and the remaining portion of the increase (less than one percent) is program growth. Specifically, the four percent increase includes $39.9 million or price growth and $8.7 million of program growth. Approximately 75% of the program growth is for civilian pay required to support a 97 percent utilization rate, and increase of 19 civilian workyears for conversion of military endstrengths for weapon system enginering and technical support, and increases in inventory workload support for systems such as F-16, C-17, B-1B and Peacekeeper missile. Commensurate increases in manpower support functions (travel and supplies) account for the remainder of the real growth.

Question. Is the Air Force buying more items? If so, please provide the increase from 1989 to 1990 by item/commodity.

Answer. The number of inventory line items managed by the Air Force has grown at a consistent rate, less than two percent per year since fiscal year 1985. The increase in fiscal year 1990 over fiscal year 1989 represents a lower growth rate in total inventory items managed, equating to a 0.6 percent increase. The number of items managed and used as workload indicators for determining budget requirements relate to items which are "active," those items requiring some level of management action during the specified support period. "Activity" is defined as some type supply inquiry action relating to a demand or requisition being submitted on an item during a two year period. An item experiencing no activity within a two year period is removed from the active item inventory count. The number of "active" items constantly fluctuates as new items are introduced, problem items are modified or are otherwise satisfied, and items are retired because of programmatic changes or obsolescence. The precise number of items considerd to be "active" at any point in time is a "net" result of multiple actions. The fiscal year 1990 budget request for supply operations is based upon the following workload projections by item category:

	Fiscal year—	
	1989	1990
Consumable items	584,042	587,077
Investment items	174,849	177,213
Equipment items	65,419	65,755
Total items managed	824,310	830,045

Question. How does the Air Force Categorize its items—managed items or sales items? Please provide the number of line items managed, by category for fiscal years 1985–1989.

Answer. The Air Force categorizes its inventory support as "items managed" and further subdivides the category into consumable (stock fund), investment (recoverables) and equipment (support equipment) type items managed by the Air Logistics Centers. The number of items managed relate to "active" items in the inventory projected to require some level of management action during the support timeframe.

Consumable items are weapon system or support equipment component items that are not repaired. Consumable item requirements are computed in the Economic Order Quantity (EOQ) Buy Budget Computation System (D062) and are managed by the Air Force Stock Fund. Since the stock fund is a revolving account, stock fund items are sales items. Investment items are recoverable weapon system or support equipment component items that are subject to base or depot level repair. They are centrally managed using the Recoverable Consumption Item Requirements System (D041). The equipment category includes: support equipment items (i.e., tools, workstands, test equipment, etc.); vehicles; and electronics communications equipment. Equipment requirements are centrally computed and tracked using the Equipment Items Requirements Computation System (D039).

NUMBER OF ACTIVE LINE ITEMS

[In thousands of dollars]

	Fiscal year—				
	1985	1986	1987	1988	1989
Category:					
Consumable	564.0	563.9	571.4	583.0	584.0
Investment	165.0	167.4	170.8	172.1	174.9
Equipment	63.0	62.8	64.7	67.9	65.4
Total items	792.0	794.1	806.9	823.0	824.3

Question. How do changes such as a reduction in stock fund sales, reduction of flying hours or the transfer of items to DLA affect the supply operations workload and funding?

Answer. Programmatic changes in operating tempo or force structure will drive workload indicators to some extent; however, these changes do not directly correspond to changes in supply operations resource requirements. For example, reductions in flying hours might reduce the quantity of an item needed and thus the number of requisitions processed; however, the activity associated with managing the item; i.e., computation processing, engineering support, purchase request preparation, contracting activity, inventory accountability, etc., does not change significantly unless the activity level drives the item to dormant status or eliminates the need for the item. As a consequence, it is very difficult to relate gross workload activity indicators to the total supply operations resource requirements. Workload activity indicators also fluctuate in the short term whereas manpower and facility requirements are not readily adaptable to short-term management. Resource levels then tend to track to long-term workload rather than short-term changes in indicators. The total requirements are in aggregate of multiple adjustments including item transfers, acquisition of new items and operating tempo changes, only some of which increase/decrease resource requirements. In addition, actual changes in Air Force budget requests would also be dependent on the health of the baseline resources relative to the workload. Since we have never funded the full validated manpower requirement, any reduction in one area of workload would simply be offset by an increase in other areas. For example, we have backlogs in processing disposal actions, loading Engineering Data Computer Assisted Retrieval System (EDCARS) data, updating master material support records, etc., and have audit demonstrated deficiencies in validating Government Furnished Material (GFM) requirements, computation factor review and inventory accuracy review, which share the common problem of lack of manpower. As a consequence, the fiscally constrained budget request reflects support for highest priority, but not total, supply operational requirements.

[CLERK'S NOTE.—End of questions submitted for the record.]

WEDNESDAY, APRIL 5, 1989.

OPERATION AND MAINTENANCE, NAVY AND MARINE CORPS

WITNESSES

REAR ADM. R.M. WALSH, DIRECTOR OF OPERATIONS DIVISION, OFFICE OF BUDGET AND REPORTS, DEPARTMENT OF THE NAVY

LT. GEN. WILLIAM G. CARSON, JR., DEPUTY CHIEF OF STAFF FOR INSTALLATIONS AND LOGISTICS, HEADQUARTERS, MARINE CORPS

INTRODUCTION

Mr. MURTHA. The Committee will come to order.

Today the Committee will talk about the Operation and Maintenance, Navy and Marine Corps fiscal year 1990 budget. The witnesses before us today are Rear Admiral R. M. Walsh, Director of Operations Division, Office of Budget and Reports, and Lieutenant General William G. Carson, Deputy Chief of Staff for Installations and Logistics.

Welcome Admiral Walsh and General Carson. We will put your full statements in the records. If you will, please summarize your statements and then we will ask some questions.

General Carson.

SUMMARY STATEMENT OF GENERAL CARSON

General CARSON. Mr. Chairman, I am pleased to appear before the Committee today and present the Marine Corps O&M.

I have provided a statement for the record. I will keep these opening remarks brief with your concurrence.

Thanks to your support, we have modernized and enhanced our readiness and capability during this decade and we recognize that our task now is to maintain what we have during a period of belt tightening.

When building our program, we made some tough and conscious decisions. A tough and conscious decision was made to protect structure. With the Marine Corps being manpower-intensive, when we went to divide the rest of the TOA pie after fully supporting manpower, other appropriations were reduced.

Consequently, I present to you an austere bare-bones budget; in real terms O&M has nine percent decrease from 1989 to 1990. In fiscal year 1991, it is essentially level with 1990. We have made some rather significant changes in the Marine Corps, some organizational changes, some changes in training, more realistic training, basic warrior training, and school of infantry where every Marine will receive this infantry training. We plan to have more individual and small unit training and less major exercises and we plan to do more training closer to home. We believe these changes will make for a better individual Marine and a better Marine Corps while at the same time conserve O&M dollars.

We fully realize that this austere budget is not without risk. We realize that there will be a building backlog in depot maintenance and a backlog in real property maintenance, but for the short term, and I emphasize short term, we believe this is an acceptable risk without impacting readiness.

We realize we will have to monitor execution and readiness very closely. While we don't plan any adjustments, we may well have to make some mid-course adjustments in O&M execution. Our experience in 1990 may well influence adjustments in 1991 and the outyears.

In summary, Mr. Chairman, we have indeed tightened our belt, but at the same time, we believe that we wil continue to be able to fully respond to any contingencies.

Thank you, Mr. Chairman. I am now prepared to respond to questions.

[The biographical sketch and statement of General Carson follow:]

UNITED STATES MARINE CORPS
DIVISION OF PUBLIC AFFAIRS • HEADQUARTERS MARINE CORPS
WASHINGTON, D.C. 20380 • TELEPHONE (202) 694-4309

LIEUTENANT GENERAL WILLIAM G. CARSON JR., USMC

Lieutenant General William G. Carson Jr., is the Deputy Chief of Staff for Installations and Logistics and Quartermaster General of the Marine Corps, Headquarters Marine Corps, Washington, D.C.

General Carson was born March 7, 1932 in Norfolk, Va. He was commissioned in the regular Marine Corps in September 1953, upon graduation with a B.A. degree from Randolph Macon College, Ashland, Va.

He attended The Basic School, Quantico, Va., graduating in March 1954. He then reported to the 2d Marine Division, Camp Lejeune, N.C., where he served as the Communications Officer of the 3d Battalion, 2d Marines.

In April 1955, he completed the Supply Officers' Course at Camp Lejeune, and was assigned to the Service Battalion, Marine Corps Base, Camp Lejeune, until July 1955, when he was transferred overseas to the 1st Marine Aircraft Wing as the Supply Officer, Marine Air Control Squadron-3. Transferred to Headquarters Marine Corps, Washington, D.C., in November 1956, he served with the Supply Department. He was promoted to captain in July 1958.

Upon arrival at 2d Force Service Regiment, Camp Lejeune, in August 1960, he was assigned as the Officer-in-Charge, Materiel Division, where he served until May 1963, then reassigned to the Base there, as the Officer-in-Charge, Field Supply Maintenance Analysis Office. While serving in this assignment, he was promoted to major in July 1965.

The following month, he returned to Quantico, where he attended the Amphibious Warfare School and the Nuclear, Biological and Chemical Weapons School, until March 1966. He was then transferred overseas where he served with Supply Battalion, 3d Force Service Regiment, until May 1967. Returning to Headquarters Marine Corps, he again served with the Supply Department for four years. He was promoted to lieutenant colonel in October 1968.

From August 1971 to June 1972, General Carson attended the Marine Corps Command and Staff College at Quantico. He returned overseas as the Commanding Officer, 3d Service Battalion, 3d Marine Division, until July 1973. Receiving orders to Headquarters, Fleet Marine Force, Atlantic, Norfolk, Va., he served as the Assistant Force Supply Officer until his promotion to colonel in July 1975.

General Carson's next assignment was to the Industrial College of the Armed Forces, Washington, D.C., where he was a student until June 1976. He was transferred to the Marine Corps Logistics Base, Albany, Ga., where he served as the Director, Supply Operations Division, and later as Deputy Chief of Staff for Operations.

During August 1978, he was assigned as Chief of Staff, Marine Corps Logistics Base, Albany, serving in this position until July 1979, when he was transferred to Norfolk to assume duty as Force Supply Officer, Fleet Marine Force, Atlantic. While serving in this assignment, he was selected in February 1981, for promotion to brigadier general. He was promoted to that grade on April 1, 1981, and assigned duty as Director, Materiel Division, Installations and Logistics Department, Headquarters Marine Corps on June 1, 1981. He was advanced to major general on March 8, 1984. On Aug. 30, 1985, General Carson was assigned duty as the Commanding General, Marine Corps Logistics Base, Albany, Ga. He served in this capacity until June 7, 1988. General Carson assumed his current assignment on July 1, 1988. He was promoted to lieutenant general on July 5, 1988.

Lieutenant General Carson and his wife, the former Janet L. Palmore of Ashland, Va., have two children, Barbara and William.

(Revised July 7, 1988 HQMC)

STATEMENT OF LIEUTENANT GENERAL WILLIAM G. CARSON, JR.

INTRODUCTION

Mr. Chairman and members of the Committee, it is my privilege to appear before you to present the Marine Corps' fiscal years 1990 and 1991 operation and maintenance budget request.

I would first like to express the Marine Corps' appreciation to the members of this Committee and to the Congress for supporting our efforts to modernize and enhance our military capability and readiness. You have enabled us to develop the competence and power projection to be the force in readiness across the spectrum of conflict. We look forward to your continued support to ensure that we are able to maintain that posture.

I would like to clarify before starting that all of the budget figures which I will be covering today are from President Reagan's budget submission. We are presenting to you an austere request. We recognize the significant fiscal demands that we are facing, challenging us to rise to the occasion and maintain the high state of readiness you expect of your Marine Corps. Because we have spent our money wisely we are in a better position to deal with the fiscal constraints. Our Commandant has stated, it is his intention to do everything possible to provide this Nation with the best led, best equipped, best trained, and best disciplined fighting force on earth.

Last year, we outlined some initiatives we were undertaking to realign some functions and reduce the headquarters bureaucracies. We have now completed these changes. At Quantico, Virginia we have created the Marine Corps Combat Development Command (MCCDC), formed from the reorganization of the Marine Corps Development and Education Command. This command develops Marine Corps concepts, plans, and doctrine; identifies, develops and implements policy and programs for education and training of all regular and reserve Marine Corps personnel; and exercises cognizance over Marine Corps wargaming.

Also, we combined elements of the Research, Development and Studies (RD&S) Division and the Materiel Acquisition function previously at Headquarters in Washington with the Development Center at Quantico and formed the Marine Corps Research, Development and Acquisition Command (MCRDAC). Using streamlined acquisition methods, this command takes the materiel requirements and/or deficiencies identified by the Marine Corps Combat Development Command and translates them into cost-effective weapons and equipment. The activation of the Marine Corps Research, Development and Acquisition Command is a significant step forward in the way we develop, procure and support equipment for our fighting forces.

The improvements that we have effected are not limited to the equipment, training, operation, and tactical excellence of the Fleet Marine Forces. We have also improved our facilities, and provided the quality of life we believe our Marines and their dependents deserve. This budget is minimal to maintain the quality of these Marine Corps facilities.

THE FLEET MARINE FORCES

Over the past year and a half we have taken a hard look at our structure and our training programs to ensure that we are placing a strong emphasis on those areas of conflict that we anticipate. The goal has been to produce a warfighting machine that is balanced and that represents the Corps' complete capability. As a result we have made some structure changes that will provide the right mix of resources in the active forces to enable us to respond quickly and effectively to the most likely scenarios. We are confident that we have the capability in our Marine Expeditionary Forces to respond to the total spectrum of conflict. In doing so, we have taken care to maintain the proper balance among ground combat, aviation combat and combat service support components of the active and reserves forces to maintain the unique integrated and self-sustaining abilities of our Marine Air-Ground Task Forces. We stand ready to go tonight with our forward deployed forces and our two CONUS-based Marine Expeditionary Forces.

The Commandant has directed the Commanding General of the Marine Corps Combat Development Command, Quantico, Va. to develop a Marine Air-Ground Task Force Master Plan. This plan will become the cornerstone of the Marine Corps programming process. The identification of Fleet Marine Force requirements, research and development studies and priorities and translation of mid range objectives into an integrated Marine Corps Air-Ground Task Force outlook are some of the key programming elements to be included in the plan.

The austere times that we face have caused us to make some tough decisions concerning the intensity and number of exercises that we can participate in during fiscal years 1990/1991. However, we will increase our support of the JCS directed exercises, while reducing the total number of exercises. At the same time we will emphasize more small unit and individual training. We will realize savings and at the same time concentrate on small unit skills that are necessary for low and mid intensity conflict. Although we have decreased the overall number of exercises, we have increased the number of battalion field training days. We are consolidating exercises that are similar in nature and attempting to get our Marines in the field as much as possible.

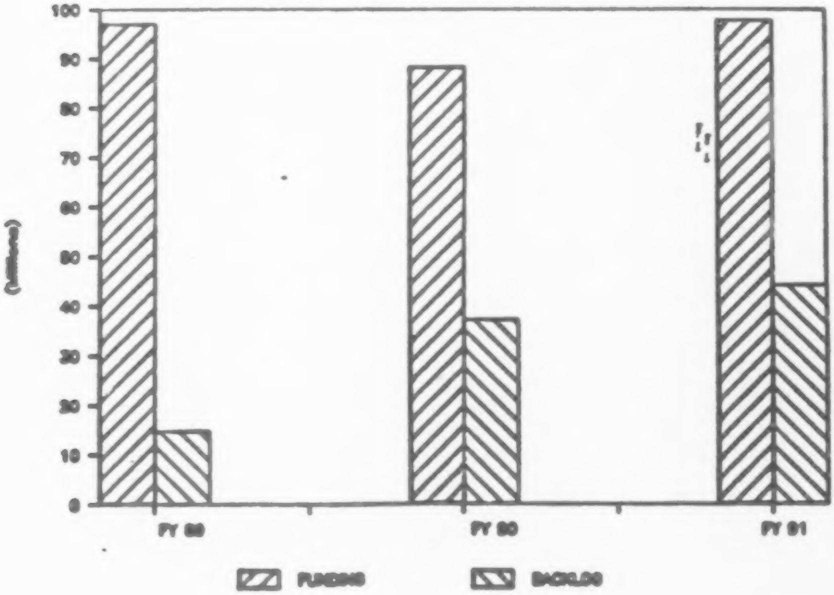
CENTRAL SUPPLY AND MAINTENANCE

Central Supply and Maintenance contains the essential functions that will allow us to maintain the readiness and sustainability that has come with the recent significant investment in new weapons and equipment. Not only do we provide the supply support and depot level maintenance for the everyday operation of the Fleet Marine Forces but also for the maintenance of weapons and equipment for our Maritime and Geographic Prepositioning Programs. Also funded under this program is the transportation of material to and from the Marine Corps Logistics Bases, for Fleet Marine Force exercises, and in support of the prepositioning programs.

The critical elements that support our Fleet Marine Forces are our two Logistics Bases at Albany, Georgia and Barstow, California. These bases not only provide depot maintenance and material distribution systems, but Integrated Logistics Support for our weapons and equipment is also located at Albany. To improve support to the Fleet Marine Forces, during the past year we have consolidated some management functions at the Logistic Base at Albany, Georgia that were previously accomplished at Headquarters, Marine Corps or the Logistics Bases. We think that we will effect better management over both the depot maintenance and central supply functions.

Equipment maintenance and modification support is performed predominately at the two logistics bases at Albany, Georgia and Barstow, California. The decrease in funding in support of equipment maintenance and modification will increase our unfunded backlog even considering the reduction in exercises. Because these maintenance activities are in direct support of the Fleet Marine Forces, we do not want to continue this trend over a long period which would detract from our readiness. Below is a graph of the funding for the equipment maintenance and the anticipated unfunded backlog.

DEPOT MAINTENANCE FUNDING



TRAINING AND EDUCATION

This budget supports the Commandant's number one initiative, which is Marine Battle Skills Training. This program will ensure that every Marine receives the necessary training to operate in a combat environment and win. In addition to modifying recruit training to include more field training, it provides that every Marine, upon completion of recruit training, will be sent to one of the schools of infantry for comprehensive training in small unit and individual infantry skills. This program also includes training at the Noncommissioned Officer schools and academies to ensure that Marines in leadership positions maintain their warfighting skills as well. The FY 1990/1991 Operation and Maintenance Budget reflects the continued implementation of this training program throughout the Marine Corps.

RECRUITING

An effective recruiting process is required to maintain the quality Marines needed to accomplish the demanding missions that may be assigned. We have continued to enjoy success in our recruiting efforts with 95.1 percent of our first time enlistees being high school graduates for fiscal year 1988. With the decrease in the pool of qualified military available recruits, the attainment of these high quality recruits will be an ever increasing challenge. The level of funding we are requesting for recruiting and advertising will support our efforts in this area.

BASE OPERATIONS

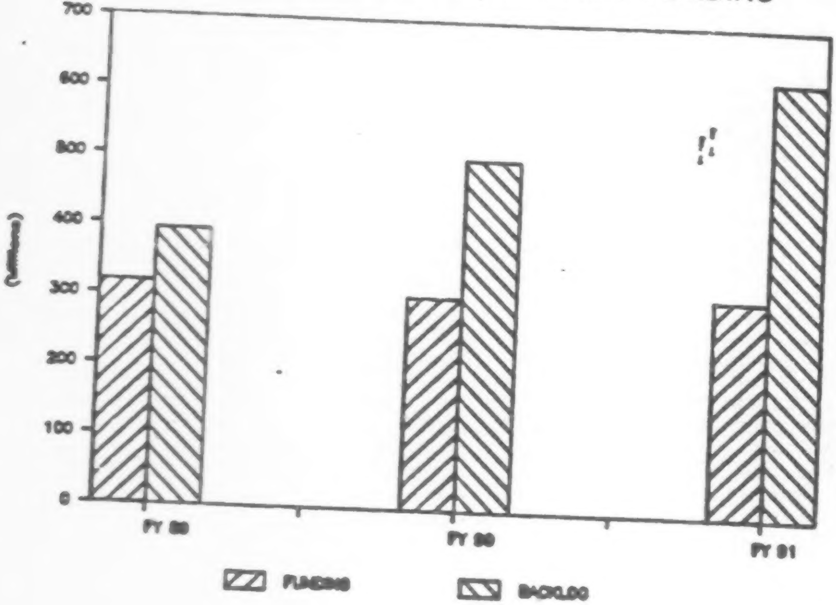
In order to ensure that our Fleet Marine Forces are ready, it is essential that we have a supporting establishment that provides for the housing, feeding, training ranges/areas and other essential facilities and services to support our operational and training requirements while enhancing the welfare of our Marines and their dependents. Maintaining this infrastructure is critical to an acceptable quality-of-life and adequate and efficient working and training conditions.

Earlier, I discussed that we are developing a Marine Air-Ground Task Force Master Plan to support the Operating Forces. As a necessary complement to that plan, we are developing a similar plan for our supporting establishment, the Supporting Establishment Master Plan. This will be a comprehensive document that will list by priority all the activities, functions and services to support the training and readiness of the Fleet Marine Forces.

In Maintenance of Real Property we have reduced our funding for FY 1990/1991 which reflects the shrinking of resources available during the budget years. We recognize that the backlog will grow during this period. The following chart indicates the funding that is budgeted and the projected backlog that will occur.

It is essential that we manage these resources in an effective and efficient manner to make sure that the most critical projects are accomplished. We must also address those requirements that will have the greatest impact on minimizing the growth of the Maintenance of Real Property Backlog.

MAINTENANCE OF REAL PROPERTY FUNDING



SUMMARY

As I said up front, the budget request that we have presented is an austere one. We have emphasized the need to maintain the investment that you have been instrumental in helping us attain over the past several years. We are confident that initiatives such as Marine Battle Skills Training, the Marine Air-Ground Task Force Master Plan, and the Supporting Establishment Master Plan will provide the responsive Marine Corps that this country expects.

We will continue to provide our Marines and their dependents the quality of life that they expect and deserve while furthering the quality and intensity of training to ensure the Marine Corps can carry out any mission assigned. The funds that we have requested will allow us to do this.

We believe that this budget will:

Provide for the recruiting, training and retention of quality Marines and the support to their families.

Provide for the unit skills, integrity, and cohesiveness to deploy, and then employ, disciplined and effective combat units, trained and ready to meet any mission.

Provide for the operation and support of our bases and stations, maintain efficient mission support facilities, and support the quality of life our Marines and their families deserve.

Enable us to organize and manage efficiently, utilizing improvements in technology, to meet the challenges of today's combat environment.

Enable us to fully respond to the needs of the Unified Commanders to whom our Fleet Marines are assigned for contingencies and wartime planning.

We think this is a bare bones budget. We have balanced the necessity to maintain our combat readiness and warfighting skills and at the same time protect the investment that the American people have made in their Marine Corps over the last several years. We solicit your continued support in providing a Marine Corps that is fully capable of meeting its responsibilities in the defense of our Nation.

O&M REAL GROWTH

Mr. MURTHA. General Carson, what did you say about real growth?

General CARSON. I said in real terms, O&M in fiscal year 1990 is a nine percent reduction from 1989.

Mr. MURTHA. Are you going to reduce forces? Are you going to decrease training?

General CARSON. We are changing training.

REAL PROPERTY MAINTENANCE BACKLOGS

Mr. MURTHA. You have no backlogs or anything like that, no problems with backlogs of maintenance and so forth?

General CARSON. We will have a maintenance backlog in depot maintenance of equipment that will build.

However, we believe that we can rebuild the things to maintain readiness and the area that will probably show some decrease as a result of the depot maintenance backlog will be sustainability during the short term.

Real property maintenance backlogs will grow. We believe we will be able to accomplish the real property maintenance projects that directly relate to readiness.

There will be a backlog building in projects that we would like to do, that we need to do, that we will have to patch on the short term such as water lines, sewer lines, roads will be patched, hard stands patched as opposed to being repaved; old sidings of buildings painted rather than replaced, new roofs delayed while the old roofs are patched. So in real property maintenance, there will be a building backlog of what should be done.

Mr. MURTHA. Is that the best way to do things, the most cost-effective way in the long term to do things?

General CARSON. It is probably not the most cost-effective way to do things, but when we made the conscious decision to protect structure, being manpower intensive and structure costing approximately 63 percent of the TOA, it didn't leave much for the other appropriations.

EFFECT OF O&M REDUCTIONS

Mr. MURTHA. Your responsibility is to make sure you spend the O&M dollars appropriately. Let the other people worry about their money. What we are concerned about is, every time that we start making cuts instead of cutting out systems, instead of making troop reductions, we start cutting O&M and readiness items.

You said you are not going to cut readiness, but it seems to me directly related to O&M is readiness. There is no way you can keep the readiness at this level with the same number of people with the same mission if you have a nine percent negative growth.

Is that accurate?

General CARSON. We believe that we can maintain readiness for the 1990-91 period without an appreciable impact.

Mr. MURTHA. Well, I know we can get by one or two years with less money, but this Committee, for instance, saw the need for additional spare parts ten years ago and we pumped $5 billion into that area and we think it paid off because we were cannibalizing equipment. It was costing DoD more money to get things done and it was a shortsighted policy in our estimation.

I am saying that you have a nine percent negative growth in O&M which is directly related to readiness and I am worried that in four or five years we will be back where we were in the late 1970's, if we make these kinds of decisions.

General **Carson**. I certainly agree that over a period of time it would have that effect.

Mr. **Murtha**. How long has the O&M been in negative growth?

General **Carson**. This is the second year.

Mr. **Murtha**. If it hadn't been for what this Committee added, you would have had a negative growth last year, right?

General **Carson**. That is correct.

Mr. **Murtha**. So if we don't add money this year, you are going to have a negative growth again and, of course, we are starting down the slippery slope of hurting readiness. In the long run the force that has to be ready, the leanest force that spends the least amount of money the most efficiently is not going to be ready to go when we need them.

General **Carson**. As I said, I believe that for the short term, one year or two years, we could live with this without it impacting readiness.

IMPACT OF O&M ON READINESS

Mr. **Murtha**. General Gray and I went down to Parris Island and we went there without any announcement that we were coming. We wanted to see how the training was going.

He even took his four stars off. We went around the buildings and no one knew we were on the base for a couple of hours. At least, I don't believe they did.

The training is going pretty well right now. However, this reduction to O&M is the type of thing that is going to reduce training and everything else.

As a matter of fact, I recently returned from visiting the *Samuel Roberts*. One of the reasons that ship was saved was the intensive training of the crew; that is what the Captain said. They were at the highest state of readiness in the Navy and everybody admits that. The *Roberts* under almost any circumstance should have gone down with probably a lot of lives lost and a $450 million ship that would have had to be replaced.

We found out the Navy had cut out the money for that realistic training used by the *Roberts* crew. This Committee put the money back in, but that is the type thing we worry about when you get into those kinds of cuts, because you don't get a chance to do it over again.

I always say in defense there is not first, second and third; there is only first and last. We can't afford to have that and that is why I worry about these kinds of items being cut and one of the first things in the Pentagon always cuts is readiness items.

I hate to see you coming in here with a budget which cuts O&M.

Mr. McDade?

Mr. **McDade**. I want to echo the sentiments of the Chairman. We were all dismayed to see cuts like that.

I know that you don't like them any more than we do. We want to work with you to see that we don't get into the kind of situations we were in before. They were intolerable for the Marine Corps and for the services in general. This is an unhappy circumstance.

Mr. MURTHA. Admiral Walsh, do you have a statement?

SUMMARY STATEMENT OF ADMIRAL WALSH

Admiral WALSH. Yes, sir, I have a statement I would like to submit for the record.

It is a privilege to appear before this Committee to present an overview of Navy fiscal year 1990-91 operation and maintenance appropriations.

When the fiscal year 1990/1991 budget request was submitted to the Congress on January 9, 1989, former Secretary of Defense Carlucci stated that the priorities in the budget request are "quality people and readiness . . . and this request is an attempt to steer a sustainable and fiscally responsible course that ensures our national security."

The Secretary of the Navy has stated that "our aim is to maximize the deterrent and combat capability of our forces with prudent investment and careful management."

This budget stresses readiness and sustainability, as it has for the past several years and the funds to maintain Navy "readiness" are primarily in the O&M appropriation.

The current estimate for fiscal year 1989 includes a $400.0 million reprogramming request for readiness-related programs and we again ask for your support.

We have applied the fiscal year 1989 congressional reductions much the same as fiscal year 1988—to avoid increasing risk beyond acceptable levels and to maintain the Navy's capability to meet increasing national commitments.

This was accomplished by deferring logistic and engineering support, MRP projects and other management actions.

We were also required to make further adjustments when several congressional reductions, directed towards the industrial and stock funds, were applied to the O&M account. This compounded an already difficult problem.

We have maintained ship's steaming days and aircraft flying hours at the minimum levels required for training.

We have been able to do this while restoring some level of other support by continuing the efficiencies which we have been working on for several years.

For example, we have succeeded in our conscious attempt to field systems with lower operation and support costs than the systems they replace; gas turbine ships, with higher reliability and easier maintenance are a growing proportion of the fleet.

We are continuing our efforts to increase competition for spare parts. The average price of a spare part in the Navy Supply System is the equivalent of 37 percent lower in fiscal year 1990 than it was in fiscal year 1985. Navy stock fund prices continue to decline in both fiscal year 1990 and fiscal year 1991.

To reinforce the integrity of the acquisition process, we will reduce the amount of contractor support and perform more work with government personnel. Modernization of the fleet infrastructure when economical is the prudent course of action even in periods of austere funding.

The budget request includes some significant changes from the fiscal year 1988/1989 program.

No additional funds for Persian Gulf operations are included in the budget. Mideast Force operations are funded at the level which existed prior to commencement of Persian Gulf convoy operations.

Several transfers are reflected to more properly align direct fleet support costs. These include the transfer of funding for Contractor Engineering Technical Services and Navy Engineering Technical Services from Central Supply and Maintenance to General Purpose Forces.

Fiscal year 1989 deferral actions for modernization, MRP and logistic/engineering support are restored, although not to previous levels.

However, it has not been possible to avoid some degradation of fleet readiness. For example, the backlog of certain types of maintenance will grow, although not to the severe levels of the late seventies and maintenance of real property has not been budgeted at the levels that we would like.

Specifically, the impact which is expected to occur at the requested level of funding is:

Ship overhaul backlogs increase from three in fiscal year 1989 to five by fiscal year 1991 due to a lack of fleet modernization program funding. Aircraft and engine maintenance backlogs increase, but are at manageable levels. The mission-capable rate for aircraft is projected to go down by one percent in each year, but remains at or above the seventy percent goal. Base operations funding remains relatively level throughout the years. The net result is that we have preserved direct readiness programs, but there will still be some carryover from fiscal year 1989 and consequently a higher degree of risk than in previous years in our ability to accomplish our task.

You can help us in several ways. We request early approval of the proposed fiscal year 1989 reprogramming action which will be coming over shortly.

Equally important is that you consider for fiscal year 1990-91 minimizing restrictions limiting the use of authorized funds.

Raising the reprogramming threshold from $5 million to $10 million certainly helped, but limiting the use of "floors and caps" will provide the greatest flexibility to address emergent problems as they occur.

Finally, when adjustments to revolving accounts such as the stock fund or industrial fund are considered necessary, all appropriations, not just O&M, should be reviewed.

For example, about half of the revenues for the industrial fund come from outside the O&M Navy appropriation, and a good part comes from outside of the Navy.

When adjustments are made just to O&M Navy, it becomes a double reduction.

I hope this introduction gives you some idea of our efforts to maintain our warfighting capability as well as the risk we face in achieving our goals at reduced funding levels.

I am available to answer any questions you have on our budget submission.

[The statement of Admiral Walsh follows:]

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HOUSE APPROPRIATIONS
COMMITTEE

STATEMENT OF

RADM RAYMOND M. WALSH, U.S. NAVY

DIRECTOR, OPERATIONS DIVISION

OFFICE OF BUDGET AND REPORTS

BEFORE THE

DEFENSE SUBCOMMITTEE

OF THE

HOUSE APPROPRIATIONS COMMITTEE

ON

NAVY OPERATION AND MAINTENANCE APPROPRIATIONS

5 APRIL 1989

Rear Admiral Raymond Michael Walsh
United States Navy

Rear Admiral Raymond Michael Walsh is the Director, Operations Division, Office of Budget and Reports, Navy Comptroller and is the son of Mr. and Mrs. John E. Walsh of Philadelphia, Pennsylvania. He is a 1961 graduate of Villanova University, Villanova, Pennsylvania with a Bachelor of Science in Economics; a 1970 graduate of the United States Naval Postgraduate School, Monterey, California with a Masters of Science in Operations Research; a member of the 55 class, Armed Forces Staff College, Norfolk, Virginia and a 1987 graduate of the Capstone Program, National Defense University, Fort Lesley McNair, Washington D.C.

Rear Admiral Walsh's sea service included tours as Deck Officer, USS ORLECK (DD-886); Weapons Officer, USS SAMUEL N. MOORE (DD-747); Anti-Submarine Warfare Officer, Staff Commander Cruiser Destroyer Flotilla ELEVEN; Assistant Weapons and TALOS Battery Officer, USS LITTLE ROCK (CLG-4); Executive Officer, USS FARRAGUT (DLG-6) and Commanding Officer USS SCHOFIELD (FFG-3) and USS TICONDEROGA (CG-47).

Ashore Rear Admiral Walsh has served as an Analyst for the Cost and Economic Analysis Branch, Office of the Assistant Secretary of Defense (Program Analysis and Evaluation); Assistant for Programs, Office of the Chief of Naval Operations, Systems Analysis Division (OP-96P), Combat Systems Readiness and Training Officer, Staff Commander Naval Surface Force, U.S. Pacific Fleet and Head, Program Plans and Development Branch, Office of the Chief of Naval Operations, General Planning and Programming Division (OP-901).

Rear Admiral Walsh's personal awards include the Legion of Merit with gold stars in lieu of second and third awards, the Meritorious Service Medal with gold star in lieu of second award, the Navy Commendation Medal and the Navy Achievement Medal.

He is married to the former Lenore Margaret Walker of San Diego, California. They make their home in Fairfax, Virginia with their four children: Stephen, Erin, Brian and Richard.

NAVY OPERATION AND MAINTENANCE APPROPRIATIONS

I appreciate the opportunity to appear befo e you today to discuss the Navy's FY 1990 and FY 1991 budget request for the Operation and Maintenance appropriations.

As a result of the 1987 Budget Summit Agreement, the FY 1988 and FY 1989 topline for Operation and Maintenance was reduced by $2.2 billion and $2.3 billion, respectively, from the original FY 1988/1989 President's Budget. Emergent Persian Gulf operations, combined with severe funding shortfalls rendered the Operation and Maintenance, Navy appropriation unexecutable, resulting in $471.5 million in reprogramming actions to sustain operations through the end of FY 1988. This resulted in a FY 1988 to FY 1989 further program decrease, thus continuing the funding decline from FY 1985.

The current estimate for FY 1989 includes a $394.0 million reprogramming request for readiness related programs and we again ask for your support. However, even with approval of the reprogramming request, FY 1989 remains below FY 1988 when viewed in constant dollars. We have applied the FY 1989 Congressional reductions much the same as FY 1988 -- to avoid increasing risk beyond acceptable levels and to maintain the Navy's capability to meet increasing national commitments. This was accomplished by deferring depot maintenance, logistic and engineering support, maintenance of real property (MRP) projects and other management actions. We cannot, however, continue to let the infrastructure deteriorate to protect "readiness" because these support elements are being degraded to the point that readiness will ultimately be affected.

We fully understand the need to reduce the deficit and balance the federal budget, but as recent experience indicates, the O&M baseline cannot be reduced further and maintain the ability to meet global commitments. The requirements laid on the Navy have not diminished. Changes on the international scene such as our presence in the Persian Gulf have increased our requirements. Currently, there are about 100 ships forward deployed in the Persian Gulf, the Indian Ocean, the Western Pacific and the Mediterranean alone. However, further deterioration of fleet readiness and modernization remains a matter of vital importance given that naval forces continue to be thrust into harm's way.

The same principles used to balance FY 1989 were applied to develop the FY 1990/1991 "Reagan" budget request -- holding risk at acceptable levels and maintaining the ability to meet increasing national commitments and overall, ensuring a balanced program.

Chart 1 compares the FY 1990/1991 request with prior years in terms of FY 1990 constant dollars, as shown below.

CHART 1
OPERATION AND MAINTENANCE, NAVY
(IN MILLIONS OF DOLLARS)

FISCAL YEAR	TOA	FY 90 CONSTANT $
FY 1988	$24,934.4	$27,092.5
FY 1989	25,361.6	26,226.4
FY 1990*	26,490.3	26,490.3
FY 1991*	27,626.0	26,824.3

* Reagan Budget

We have continued to protect readiness as much as possible within fiscal constraints. Accordingly, ship optempo and flying hour estimates in both years are reflective of the Department's readiness goals. The budget request includes some significant changes from the FY 1988/FY 1989 program.

- No additional funds for Persian Gulf operations are included in the budget. Mid-East Force Operations are funded at the level which existed prior to commencement of Persian Gulf convoy operations.

- To reinforce the integrity of the acquisition process, some work currently being performed by contractors is realigned to government personnel.

- Several transfers are reflected to more properly align direct fleet support costs. These include the transfer of funding for Contractor Engineering Technical Services (CETS) and Navy Engineering Technical Services (NETS) from Central Supply and Maintenance to General Purpose Forces.

- FY 1989 deferral actions for Depot Maintenance, MRP and Logistic/Engineering support are restored, although not to previous levels.

However, it was not possible to avoid some degradation of fleet readiness. The backlog of certain types of maintenance will grow, although not to the severe levels of the late '70's. Specifically, the minimum impact which is expected to occur at the requested level of funding is:

- Ship overhaul backlogs increase.

- Aircraft overdue for maintenance increases.

- The mission capable rate for aircraft decreases.

We are acutely aware of the strong competitive demand for the nations limited resources and have based our budget request on a careful and thorough assessment of the most economic and efficient means to achieve our common objectives. The composition of the Navy FY 1990/FY 1991 "Reagan" budget request for Operation and Maintenance is displayed in Chart 2.

CHART 2
APPROPRIATION SUMMARY
(IN MILLIONS OF DOLLARS)

APPROPRIATION	FY 1988 ACTUAL	FY 1989 ESTIMATE	FY 1990* REQUEST	89/90 CHANGE	FY 1991* REQUEST	90/91 CHANGE
O&M,N	24,934.4	25,361.6	26,490.3	1,128.7	27,626.0	1,135.7
O&M,NR	924.4	976.4	984.4	8.0	1,014.1	29.7
TOTAL O&M	25,858.8	26,338.0	27,474.7	1,136.7	28,640.1	1,165.4

*Reagan Budget

The Operation and Maintenance appropriations finance the day-to-day operating costs of naval forces in the United States and around the world, and support operations which have the most direct and immediate impact on the current readiness of the Navy.

OPERATION AND MAINTENANCE, NAVY

The FY 1990 request of $26,490.3 million and the FY 1991 request of $27,626.0 million will support Navy operating forces including operation and maintenance of ships, aircraft (including Marine Corps aircraft), weapons and support equipment, as well as the total spectrum of ongoing activity within the Navy support establishment, including a 2 percent civilian pay raise in FY 1990 and a 3 percent civilian pay raise in FY 1991.

The Operation and Maintenance, Navy request for the FY 1990/FY 1991 biennial budget is shown in Chart 3. The FY 1990 request totals $26.5 billion, an increase of $1.6 billion over FY 1988 actuals, of which $1.3 billion is for price growth. Similarly, the FY 1991 request is $2.7 billion higher than FY 1988 but includes about $2.3 billion in price growth.

CHART 3
OPERATION AND MAINTENANCE, NAVY
(IN MILLIONS OF DOLLARS)

	FY 1988 ACTUAL	FY 1989 CURRENT ESTIMATE	FY 1990* REQUEST	89/90 CHANGE	FY 1991* REQUEST	90/91 CHANGE
STRATEGIC FORCES	1,423.3	1,478.9	1,726.6	247.7	1,851.6	125.0
GENERAL PURPOSE FORCES	11,033.1	11,157.5	11,622.2	464.7	11,914.9	292.7
INTEL & COMM	1,047.3	1,078.9	1,165.3	86.4	1,279.0	113.7
AIRLIFT & SEALIFT	520.9	546.5	458.1	-88.4	478.6	20.5
CENT SUPPLY AND MAINTENANCE	6,320.3	6,313.7	6,654.2	340.5	7,003.6	349.4
TRAINING, MEDICAL & OTHER GENERAL PERSONNEL ACTIVITIES	3,696.0	3,840.2	3,881.9	41.7	4.108.5	226.6
ADMINISTRATION	822.2	839.9	882.0	42.1	888.7	6.7
SUPPORT TO OTHER NATIONS	3.7	3.8	6.4	2.6	6.9	.5
SPECIAL OPERATIONS FORCES	67.6	102.2	93.6	-8.6	94.2	.6
TOTAL	24,934.4	25,361.6	26,490.3	1,128.7	27,626.0	1,135.7

* Reagan Budget

Strategic Forces. The Strategic Forces budget activity provides funds for the Navy's Fleet Ballistic Missile (FBM) Force, including the operating costs of the ballistic missile nuclear submarines, their maintenance and base operations support, weapon systems overhaul, repair and maintenance and fleet support.

The FY 1990/1991 Strategic Forces program increases reflect the delivery of one additional TRIDENT II submarine in both FY 1990 and FY 1991; the initial operating capability (IOC) of the TRIDENT II (D-5) missile in FY 1990 and FY 1991 and the further development of the Submarine Base at King's Bay, Georgia, to support the TRIDENT II submarines and D-5 missile. Additional increases in both fiscal years reflect the upgrade of the Submarine Base at Bangor to support modifications to TRIDENT I submarines. Also in FY 1990, increased funding is required as both TACAMO squadrons begin transition training from the old EC-130 aircraft to the new E-6A aircraft.

General Purpose Forces. The Navy's mission in General Purpose Forces is to provide combat ready fleet forces capable of conducting strike operations and to ensure control of the sea and air in the event of war as well as maintaining a network of shore installations and commands. These forces deploy to the Indian Ocean, Northern, Eastern and Western Pacific, North Atlantic, Central and Eastern Mediterranean, and Caribbean and Central America regions. Both FY 1990 and FY 1991 estimates for Ship and Aircraft Operations are based on Mid-East Force operating force levels which existed prior to commencement of Persian Gulf convoy operations. Beginning with FY 1989, the Outfitting program previously budgeted under Ship Maintenance and Modernization was transferred to Other Procurement, Navy.

Funding for TACAIR/ASW flying hours in FY 1990 and FY 1991 allows combat aircrews (both Navy and Marine) to maintain proficiency to conduct aircraft operations at 87 percent Primary Mission Readiness (PMR) including two percent in simulators. PMR represents the flying hours necessary to keep the aircrews qualified to perform their primary mission in assigned aircraft and the funded level remains consistent with the FY 1989 program.

Ship operating tempo is funded at a level consistent with the FY 1989 program for both non-deployed and deployed forces. Optempo represents the average operating days a ship spends at sea for work-up, training or for deployment in response to national commitments.

In the ship maintenance program, there is a net decrease of ten overhauls in FY 1990 and an additional decrease of three overhauls in FY 1991. Ship maintenance and modernization funding, however, increases in FY 1990 and FY 1991 due to a change in the mix and type of availabilities. In addition, in FY 1991 the first phase of the refueling overhaul of the USS ENTERPRISE (CVN 65) is budgeted.

Other funding increases are required to support:

- Seven additional Landing Craft Air Cushion (LCAC) craft in FY 1990 and twelve in FY 1991 for Special Combat Support Forces.

- Deployment of the first operational Relocatable Over the Horizon Radar (ROTHR) site at Amchitka, AK, and two additional operational sites in FY 1991.
- Three additional TAGOS ships in FY 1990 and two additional ships in FY 1991.

Funding levels for base operations are constant with the FY 1989 program. The budget request does not include any adjustments associated with proposed base closures.

Intelligence and Communications. The programs in this budget activity provide for collection, analysis and dissemination of intelligence, meteorological and oceanographic data and communications support for the naval community.

The FY 1990 request reflects the decentralization of funding for the Defense Data Network, which is a DOD wide initiative; increased oceanographic initiatives in support of anti-submarine warfare and increased Military Sealift Command per diem ship rates. These rates reflect higher operating costs due to an increase in the number of at-sea days and are associated with operation of more complex equipment.

The FY 1990 request also includes the functional transfer, from Central Supply and Maintenance Activities, of remote sensors supporting physical security to the Naval Security and Investigative Command (NSIC). This functional transfer was initiated to more properly align Department of Navy physical security management responsibilities in recognition of NSIC's designation as program manager for Navy-wide Physical Security.

The FY 1991 request reflects a significant increase to support "LEASAT" satellites. The FY 1991 request also includes the addition of two new oceanographic ships.

Airlift and Sealift. The Strategic Sealift Program is designed to ensure that strategic sealift ships, cargo offload systems and theater logistic systems provide a smooth flow of materials to support combat operations worldwide.

Funding responsibility for maintaining the Ready Reserve Fleet was transferred to the Maritime Administration in the Department of Transportation on 1 October 1988. This responsibility includes all the ancillary costs associated with the management of the Ready Reserve Fleet. Additionally, beginning in FY 1990 funding responsibility for nine Prepositioning Force ships will be transferred, six to the Army and three to the Air Force to align funding responsibility with the user Service.

Central Supply and Maintenance Activities. The programs in this budget activity provide supply, depot maintenance, technical, and other logistic and acquisition management support to the operating forces.

The increases in FY 1990 and FY 1991 reflect the rapidly growing AEGIS fleet and the increasing complexity of AEGIS combat system baselines and depot maintenance funding increases in FY 1990. The budget also reflects funding increases to support additional MK-46 torpedo overhauls, additional installation of previously procured modification kits and interim logistics support for the new MK-48/ADCAP torpedo. Increased funding also reflects the transfer of resources from other appropriations and accounts for the conversion of contracted advisory and assistance services (CAAS) to in-house performance. Additionally, the budget request includes increased funding in FY 1990 for the continuation of supply system ADP modernization efforts, such as the Stock Point ADP Replacement (SPAR) program and Inventory Control Point (ICP) Resolicitation Project. Increases are partially offset by the transfer of Contractor Engineering Technical Support (CETS) and Naval Engineering Technical Support (NETS) funding to General Purpose Forces and the transfer of hazardous waste disposal funding from a central budget account to the hazardous waste generating activities.

The Navy Industrial Fund (NIF) and Navy Stock Fund (NSF) support includes a requirement for the direct payment by O&MN of $450.0/$638.9 million in FY 1990/FY 1991. The funding requirement is being driven by activities not meeting efficiency objectives and higher than anticipated costs for ocean shipping. Competition that had been expected to hold down ocean shipping costs have not materialized, and Military Sealift Command (MSC) shipping is now essentially sole source. Since stabilized rates in prior budget reflected competitive pricing, the NIF has sustained significant losses. The proposed direct payments are necessary to permit the NIF to approach a zero profit/loss position by the end of FY 1991.

Training, Medical and Other General Personnel Activities. The programs in this budget activity provide training and education, health care and related support to Naval personnel.

Total medical program funding is relatively level from FY 1989 to FY 1991 at approximately $2.0 billion. Medical care is provided through Navy hospitals and clinics staffed by military, civilian and contractor personnel, and the CHAMPUS program, which provides access to private sector health care providers for eligible personnel.

The Navy is implementing significant changes in its health care delivery system to achieve the most efficient and effective mix of in-house, contractor, and private sector medical support. The requested level of CHAMPUS funding is based on recently revised usage projections and includes projected savings resulting from various CHAMPUS reform efforts and health care contracting initiatives. These initiatives involve the use of contractor-provided medical services to augment in-house operations of Navy medical facilities. Funding for these contractor initiatives increases by approximately $50 million in FY 1990 and $100 million in FY 1991. This will result in more efficient use of existing Navy hospitals and facilities by ensuring that in-house Navy personnel are devoted to more complex and critical medical services and by reducing reliance on more expensive CHAMPUS support.

General personnel activities include Recruiting and Advertising. Training support and a wide range of morale, welfare and self-improvement programs.

including career counseling, alcohol and drug rehabilitation, and off-duty and voluntary education. These are aimed at recruiting and retaining high quality, well-trained personnel. In FY 1990, recruiting and advertising funds provide for additional increased radio and magazine advertising. Additional funding is required to meet quantitative and qualitative recruiting goals during a period when the demographic pool of potential recruits is shrinking.

Training and education programs provide the skills needed by officer and enlisted personnel. Academic training provided by the Naval Academy and NROTC programs is the major source of top quality officers, while the Naval Postgraduate School and Naval War College provide postgraduate education at critical junctures in an officer's career. In the technical training area, firefighting and damage control courses are being expanded and upgraded to reflect lessons learned from the STARK and ROBERTS incidents.

Administration and Associated Activities. The programs in this budget activity include funding for staff offices of the Secretary of the Navy and the Chief of Naval Operations; and provides service-wide support in the financial, legal and personnel areas.

Increases in FY 1990 and FY 1991 are for actual costs for injury compensation payments made under the Federal Employees Compensation Act (FECA), and the transfer of resources for payment to the Federal Building Fund to rent commercially leased space occupied by the Navy.

Support to Other Nations. This budget activity provides funding for the Latin American Cooperation Program, emergency medical travel for certain Navy personnel and their families, the Technology Transfer Program, and the unified commanders' cooperative programs and exercises with friendly nations.

The FY 1990 request reflects an increase for additional humanitarian aid such as disaster support and medical supplies and the expansion of foreign participation in combined exercises. These Title 10 programs are proving to be an effective source of goodwill and military cooperation between the United States and friendly, developing nations.

Special Operations Forces. The Special Operations budget activity provides funding for the Navy's Special Operations Forces (SOF). This program includes operation of seven SEAL Teams, two Swimmer Delivery Vehicle (SDV) Teams, two Special Boat Squadrons, two Special Warfare Groups, Naval Special Warfare Command, Naval Special Warfare Center, and the Navy's portion of the Joint Special Operations Command. Additionally, this budget activity provides for the maintenance of various specialized equipment and facilities used by Naval Special Operations Forces. The FY 1990 and FY 1991 request reflects expansion in the Naval Special Operations Force structure, which is the follow-on to the FY 1989 Congressional increase.

OPERATION AND MAINTENANCE, NAVY RESERVE

Chart 4 provides summary financial data for the Operation and Maintenance, Navy Reserve appropriation.

CHART 4
OPERATION & MAINTENANCE, NAVY RESERVE
(IN MILLIONS OF DOLLARS)

	FY 1988 ACTUAL	FY 1989 CURRENT ESTIMATE	FY 1990* REQUEST	89/90 CHANGE	FY 1991* REQUEST	90/91 CHANGE
MISSION FORCES	561.3	602.4	859.2	256.8	895.9	36.7
AIR RESERVE FORCES	307.8	303.5	291.2	-12.3	305.2	14.0
SHIP OPERATIONS/SURFACE SUPP	88.9	92.0	93.9	1.9	102.3	8.4
SHIP MAINTENANCE/MODERN	157.3	199.3	208.1	8.8	207.8	-.3
BASE OPERATIONS/OTHER SUPP	.0	.0	182.4	182.4	193.5	11.1
RECRUITING AND ADVERTISING	.0	.0	15.9	15.9	16.7	.8
MAINTENANCE AND REPAIR OF REAL PROPERTY	.0	.0	49.9	49.9	51.8	1.9
TECHNICAL SUPPORT	7.3	7.6	17.8	10.2	18.5	.7
DEPOT MAINTENANCE	121.3	120.4	118.9	-1.5	111.7	-7.2
AIRCRAFT REWORK	113.4	110.7	118.9	8.2	111.7	-7.2
TECHNICAL SUPPORT	7.9	9.7	.0	-9.7	.0	.0
OTHER SUPPORT	241.8	253.6	6.3	-247.3	6.5	.2
MANAGEMENT HEADQUARTERS	6.5	6.2	6.3	.1	6.5	.2
BASE OPERATIONS/OTHER SUPP	167.3	176.6	.0	-176.6	.0	.0
RECRUITING AND ADVERTISING	14.7	16.8	.0	-16.8	.0	.0
MAINTENANCE AND REPAIR OF REAL PROPERTY	53.3	54.0	.0	-54.0	.0	.0
TOTAL	924.4	976.4	984.4	8.0	1,014.1	29.7

* Reagan Budget

This appropriation consists of three budget activities: Mission Forces, Depot Maintenance, and Other Support. The FY 1990 and FY 1991 budget requests are $984.4 million and $1,014.1 million respectively. Requested funding includes a proposed 2 percent pay raise for civilian personnel in FY 1990 and 3 percent in FY 1991.

Beginning in FY 1990, Base Operations Support (BOS), Recruiting and Advertising and Maintenance and Repair of Real Property (MRP) funding is realigned from Budget Activity-3 Other Support, and Contractor Engineering Technical Services (CETS) funding is realigned from Budget Activity-2 Depot Maintenance, to Budget Activity-1. This transfer aligns the funding with the forces supported, streamlines fund allocation and reporting and creates an appropriation structure similar to that of the Operation and Maintenance, Navy appropriation.

Mission Forces. In FY 1990 and FY 1991, Mission Forces will support the Department's goals for ship operating tempo of 21 days per quarter and Naval Air Reserve PMR of 87 percent. Also included is funding for intermediate and depot level maintenance and modernization of Naval Reserve ships and equipment, operation of Special Combat and Special Operations Forces and operational support to Naval Reserve Force ships.

Depot Maintenance. The Depot Maintenance budget activity provides for the Reserve aircraft rework program. The aircraft rework effort increases in FY 1990 due to increasing aircraft inventory levels and rework of aircraft that were deferred in prior years.

Other Support. The realignment of the BOS, MRP, Recruiting and Advertising activities to Mission Forces results in only Reserve Management Headquarters remaining in Other Support. Management Headquarters funding supports the operation of the Director of Naval Reserve and the Commander, Naval Reserve Force headquarters in New Orleans, LA, and remains basically level in both FY 1990 and FY 1991.

READINESS INDICATORS

This section contains selected readiness data on aircraft and ship operations, ship maintenance and aircraft rework.

The aircraft flying hour program data as reflected in Chart 5 shows Primary Mission Readiness (PMR) at the Department of the Navy goal of 87 percent in FY 1990 and FY 1991, which is level with the FY 1989 program. The program reflects aircrew manning at 100 percent for Marine Corps squadrons, while Navy squadron manning is at 95 percent in FY 1989 through FY 1991. The FY 1990 program provides for the transition of one AV-8B, six F/A-18 and two SH-60 squadrons. The FY 1991 program provides for the transition of one AV-8B, four F/A-18 and two SH-60 squadrons. The FY 1990 and FY 1991 programs support thirteen deployable carrier airwings, three Marine Corps airwings, and aviation components of the 1st Marine Amphibious Brigade.

CHART 5
AIRCRAFT - FLYING HOUR PROGRAM

ACTIVE FORCES	FY 1988	FY 1989	FY 1990*	FY 1991*
PRIMARY MISSION READINESS (%)1/	84	87	87	87
FLEET READINESS SQUADRONS (%)	100	100	100	100
FLEET SUPPORT (%)	86	86	86	86
RESERVE FORCES				
HOURS PER PILOT PER YEAR	121	121	121	121

* Reagan Budget
1/ Includes two percent simulator contribution

Ship operations data is shown in Chart 6 and reflects funding of the Department's goals for deployed and non-deployed coverage continuing as in FY 1989, with Carrier battlegroups deploying in world-wide operating areas.

CHART 6
SHIPS - STEAMING DAYS PER QUARTER

	FY 1988	FY 1989	FY 1990*	FY 1991*
ACTIVE FORCES				
DEPLOYED	53.3	50.5	50.5	50.5
NON-DEPLOYED	26.5	29.0	29.0	29.0
RESERVE FORCES	21.0	21.0	21.0	21.0

* Reagan Budget

Ship maintenance funding increases in FY 1990 and FY 1991, although the total number of availabilities decreases due to the change in the mix and type of availabilities. The ship maintenance program reflects a net decrease of ten overhauls from FY 1989 to FY 1990 and a net decrease of three overhauls from FY 1990 to FY 1991. The FY 1990 program includes a regular carrier overhaul while the FY 1991 program includes a refueling overhaul for USS ENTERPRISE (CVN-65). Selected Restricted Availabilities (SRAs)/Phased Maintenance Availabilities (PMAs)/Submarine Depot Modernization Periods (DMPs) increase by five in FY 1990 and decrease by twenty-six in FY 1991 as funding constraints force the deferral of short-term availabilities. Strategic homeporting initiatives beginning in FY 1990 increase Intermediate Maintenance Activity (IMA) workloads in FY 1990 and FY 1991. Increases in funding for ship inactivations in FY 1990 and FY 1991 are due to five additional inactivations and a more expensive mix of ships. Additionally, in FY 1989 the funding for the procurement of initial outfitting spares transferred to Other Procurement Navy and funding for Planning and Estimating for Repairs and Alterations (PERA) transferred within O&M,N from Central Supply and Maintenance to Ship Maintenance and Modernization under Technical Support.

CHART 7
SHIP MAINTENANCE
(IN MILLIONS OF DOLLARS)

	FY 1988	FY 1989	FY 1990*	FY 1991*
ACTIVE FORCES SHIP MAINTENANCE				
SHIP DEPOT LEVEL REPAIR	2,617.5	2,923.4	3,412.5	3,520.6
DEPOT LEVEL SUPPORT	161.7	173.8	193.7	199.9
IMA	348.6	359.4	371.2	423.1
MODERNIZATION	959.4	1,101.0	1,034.6	1,047.6
OUTFITTING	323.0	--	--	--
INACTIVATIONS	100.3	107.5	194.1	185.0
TOTAL: SHIP MAINTENANCE & MODERNIZATION	4,510.5	4,665.1	5,206.1	5,376.2
NO. OF SHIP OVERHAULS (UNITS)	22	25	15	12
SHIP OVERHAUL BACKLOG (UNITS) 1/	4	3	4	5
# OF DMPs (UNITS)	-	5	4	4
# OF SRAs (UNITS)	87	82	91	81
# OF PMAs (UNITS)	64	62	59	43

* Reagan Budget

1/ The total overhaul backlog includes 3 ships in FY 1988, 2 ships in both FY 1989 and FY 1990, and 1 ship in FY 1991 which are backlogged due to a lack of fleet modernization program (FMP) funding.

Total aircraft rework funding remains fairly constant over the period with slight fluctuations from year-to-year in the different categories of maintenance. Airframe rework funding increases in FY 1990 to reduce the growing backlog of aircraft overdue for maintenance. The growth in the FY 1991 backlog is due to the carryover of the FY 1990 backlog and increased requirements projected by the Aircraft Service Period Adjustment (ASPA) model.

Engine rework funding decreases from the FY 1989 level which is high as a result of a congressional increase to reduce the backlog. The engine availability position is projected to decrease from the 97 percent level achieved in FY 1988 due to increasing engine rework backlogs. Modification installation funding increases reflect the attempt to counter the significant funding decreases in FY 1989, and to install necessary modification kits which have already been procured.

The readiness indicator used for aircraft material readiness is the Mission Capable (MC) rate. The goal for this rate is 73 percent, which was achieved in FY 1988. Mission capability related funding decreases each year from FY 1988 to FY 1991, causing the decrease of one percent per year in the MC rate. Engine rework funding, which is the most significant factor used in the calculation of MC, decreased from FY 1988 to FY 1991. Additional factors which result in the MC decrease are funding decreases in initial spares and aviation depot level repairables.

CHART 8
ACTIVE FORCES AIRCRAFT REWORK
(IN MILLIONS OF DOLLARS)

	FY 1988	FY 1989	FY 1990*	FY 1991*
AIRFRAMES	392.1	388.1	442.9	442.3
ENGINES	216.0	259.8	218.2	206.0
COMPONENTS	53.6	63.8	65.9	66.0
MOD INSTALLATIONS	344.4	291.9	307.2	327.7
SUPPORT SERVICES	26.6	28.6	24.5	24.6
TOTAL: AIRCRAFT REWORK	1,032.7	1,032.2	1,058.7	1,066.6
AIRCRAFT OVERDUE FOR MAINTENANCE	16	19	21	45
ENGINE AVAILABILITY (%)	97.1	96.9	94.3	91.3
MISSION CAPABLE RATE (%)	73	72	71	70

* Reagan Budget

CIVILIAN MANPOWER

Civilian manpower comprises a vital segment of the Department of the Navy's manpower resources with the majority being directly related to our readiness posture. End-strength levels for DON civilians are shown below in Chart 9.

CHART 9
CIVILIAN MANPOWER SUMMARY

	FY 1988	FY 1989	FY 1990*	FY 1991*
NAVY	326,511	323,669	317,919	316,400
MARINE CORPS	21,301	21,764	21,659	21,624
	347,812	345,433	339,578	338,024

* Reagan Budget

The civilian estimates represent the manpower levels required to execute funded program and reflect a continued effort to contain personnel costs. Despite the declining manpower levels the Department's programs have been structured to assure responsible execution. Within the constrained fiscal environment, the Department will continue to rigorously manage civilian employment as a cost linked to authorized program.

The FY 1990/1991 end year estimates each represent a decline from the previous year's estimate. Included in the overall year-to-year changes are a number of adjustments and realignments based on planned efficiencies and in response to program considerations.

The manpower estimates incorporate adjustments to reflect the results of completed Commercial Activities Studies and in conformance with Executive Order 12615, they also reflect projected study savings. These projected savings, which total 3,640 in FY 1990 and 1,751 in FY 1991, have been calculated by applying recent actual conversion factors to the announced study populations. All positions in the commercial activities inventory and subject to review under OMB Circular A-76 will be studied by the end of FY 1990, although some review recommendations will not be implemented until FY 1991. Consistent with OSD guidance to incentives the Efficiency Review Program, the Department's estimates do not reflect projected efficiency review savings. As our newly structured efficiency program achieves actual savings, resources will be adjusted in the following years. The Commercial Activities adjustments represent a change in the way work is accomplished and are not related to funded program levels.

This budget submission reflects a change in the way we support our program management and execution process by moving effort out of contracted advisory and assistance services and into the acquisition commands. This action was deemed necessary as a result of examinations by the Naval Investigative Service and the Navy Inspector General which showed that the level of contract support in acquisition organizations represented an unacceptable risk to the integrity of the acquisition process. Manpower to perform basic governmental functions, including activities of a policy-making or managerial nature, must be maintained in-house. Particularly sensitive functions are acquisition planning, preparation of justification and approvals, procurement requests, source selection plans, requests for proposals and the source selection process itself. Our estimates reflect a realignment of funding and personnel increments of 238 end strength in FY 1989, 975 end strength in FY 1990, 1,719 end strength in FY 1991. This conversion to in-house performance will be made at no net increase in cost.

Other major adjustments in FY 1990, including a decline in Naval shipyard employment, are attributable to changes in funded workload. Workload driven staffing increases will occur at the Naval Aviation Depots and Air Research Laboratories. Additional manning is also necessary to support strategic homeporting, medical and education initiatives in FY 1990.

In FY 1991 workload driven reductions will occur at Naval Shipyards, Naval Aviation Depots, and Public Works Centers. An increase for the strategic homeporting initiative is also included in the FY 1991 estimates.

It should be recognized that a majority of the civilian employees of the Department of the Navy are directly related to our readiness posture. Over half of the civilians work in industrial fund activities, which are primarily engaged in depot level maintenance and repair of ships, aircraft and associated equipment. Many of the civilians employed at operation and maintenance activities such as supply centers, ship repair facilities, and Naval and Marine Corps air stations and bases contribute directly to operational readiness. The balance of the civilians provide essential support in functions such as training, medical facilities, and the engineering, development and acquisition of weapons systems, which have a definite, although long range, impact on readiness.

I appreciate this opportunity to describe the Department's Operation and Maintenance budget request. We seek your continued support.

Mr. **Murtha**. Mr. Dicks?

FISCAL YEAR 1989 REPROGRAMMING

Mr. **Dicks**. Thank you, Mr. Chairman.

Admiral, General, I appreciate your statements.

What is this reprogramming action going to be that you talked about in your statement?

Admiral **Walsh**. It is a total of $400 million and it covers a variety of things, engineering and logistic support which was reduced in the original 1989 submit and appropriation which, in execution, now we feel that we have to have in order to maintain the readiness of the fleet.

There is also base ops support.

FLYING HOURS/OPERATING TEMPO

Mr. **Dicks**. For the record, you said we are reducing our tempo of flying hours and steaming hours to minimal acceptable rates?

Admiral **Walsh**. No, sir. We are maintaining them at the same rates which are the minimum.

Mr. **Dicks**. What are those rates?

Admiral **Walsh**. Fifty-and-a-half days for the deployed fleet and 29 days for the non-deployed fleet for steaming; 87 percent PMR of which two percent is simulators and 85 percent is actual flying. That equates to about 25 hours per crew per month.

We have maintained the same program level across the years, although the cost of doing that is somewhat reduced as a result of a decrease in fuel prices and spare parts.

BACKLOGS IN SHIP OVERHAULS

Mr. **Dicks**. Admiral, your statement notes that even with the Reagan budget levels ship overhaul backlogs have increased.

How many ships and what types will experience overhaul backlogs under the Reagan request levels?

Admiral **Walsh**. We will go from three to five ships in the overhaul backlog. The primary cause is not in depot repair money, but rather in fleet modernization funding.

A number of the alterations that we are tying to accomplish include the new threat upgrade which is a new weapons system for surface combatants and the VLS. They require a fairly lengthy period of time to accomplish.

We don't think it is prudent to put the ship into a short repair availability and then bring it in at a later period of time to do the modernization. It makes more sense to us to do them both at the same time. Thus we deferred the entire availability until we have the required modernization funds.

Mr. **Dicks**. You don't know yet what the backlog will be when you get reduced down to the Bush levels or zero real growth?

Admiral **Walsh**. No, sir.

Mr. **Dicks**. But we might assume that it could be even greater since we are going in the wrong direction?

Admiral **Walsh**. I can't really discuss what will come out of——

Mr. **Dicks**. Until it happens; all right.

Will reductions be accomplished by deferring entire overhauls or reducing work packages on major overhauls with increases in depot maintenance later?

Admiral **Walsh**. By and large, we have tried to hold the scope of the repair package as well as we can and increase the intervals between availabilities. To some extent where it is possible to do some of that work in an intermediate maintenance activity or by the ship's force, we will do it that way. By and large, we have maintained the scope of the work in the "availability" and have accommodated reductions by increasing the interval between "availabilities".

FISCAL YEAR 1990 SHIP OVERHAUL PROGRAM

Mr. **Dicks**. While actual dollars devoted to ship overhauls will increase in fiscal year 1990, the number of overhauls will decrease by ten as a result of ship mix.

Could you explain this in more detail?

Admiral **Walsh**. Over a couple of years, we have been taking our smaller ships out of a long depot maintenance period and doing shorter, more frequent selected restricted availabilities.

Instead of putting a ship into the yards for 13 months every five years, we are now performing a two or three month availability every year. We have found that it turns out to have a more beneficial effect for the ship from a maintenance and crew training point of view.

The majority of our overhaul funds are now going to things like nuclear submarine refuelings, aircraft carriers, and big modernization packages like new threat upgrade.

The result is that you overhaul fewer ships, but the work package on those ships is considerably more complex.

USE OF MILITARY PERSONNEL DURING OVERHAULS

Mr. **Dicks**. As a result of cutbacks, I understand that uniformed personnel are being asked to perform increasing amounts of overhaul work at sea and in the shipyard since they are viewed as free personnel assets compared to Navy civilians or private shipyard workers.

Is that correct?

Admiral **Walsh**. No, sir.

In some cases, for example, in the Northwest where we did not have previously, an Intermediate Maintenance Activity or IMA capability, we were using the depot to do work. We did not have an intermediate maintenance activity in that part of the country and we were forced to use the depot level to do the maintenance work.

Our policy has been that when we have "ships" force capability or an IMA capability available, we will use that.

Our goal is to use the lowest cost method of doing maintenance in order to get the most bang for the buck.

Mr. **Dicks**. The reason I ask that question is that my office has received complaints from Navy wives that they don't see their husbands when they are in port because they are working considerable overtime in helping with ship maintenance.

You are saying this isn't true?

Admiral **Walsh**. I don't know that they are not working overtime. Sailors have been working overtime for as long as I have been in the Navy, sir.

Mr. **Dicks**. But it is not your policy to try and use uniformed personnel?

Admiral **Walsh**. We do use uniformed personnel to the extent that we can. We try to use the least cost method.

If the maintenance required is within the capability of the ship's force, we will use the ship's force. If the maintenance required is within the capability of the intermediate maintenance activity, we will use it. If the maintenance required is only capable of being done at the depot, we will do that.

FUTURE EFFORTS TO LEVEL-OUT WORKLOAD

Mr. **Dicks**. Looking at long-term ship overhaul schedules, there is a considerable shortfall in the 1991-92 time frame which will require several thousand Navy civilian employees to be released while there is an abundance of work in the mid-to late part of the decade that will require increased employment.

Serious questions are being raised about the ability to recover skilled personnel once they are let go as well as the cost ineffectiveness of such an action.

What alternatives are being examined to better level out the ship overhaul workload over the next several years?

Admiral **Walsh**. We are always looking at the shipyard loading in order to maintain the skill levels that are necessary, but there are a number of conflicting demands and some of those drive you in different directions. There is currently a flag officer steering group that is looking at this problem in-depth and will be continuing to look at it throughout the year.

On one hand, the requirement is to maintain a core workload within a naval shipyard at a competitive cost, while at the same time we have a demand for public-private competition for work in private shipyards. We are trying to find the best balance between those two without jeopardizing the future.

Mr. **Dicks**. I hope your group will take into account the fact that if you are going to drop 10,000 people, whatever it is, and then have to turn around a year later or a year and a half later and hire back those people plus some, that isn't a very good way to do business.

It causes great disruption in these communities and you lose these skilled people.

We have had these kinds of problems in the past and the Navy has always been very skillful in either moving some things to the right or moving some things to the left to try to fill in these gap periods.

Admiral **Walsh**. We will continue to do that.

Mr. **Dicks**. I just want to encourage you to continue to do it, as someone who represents one of the largest shipyards in the Bremerton Navy Yard, because this is a major problem.

We have the Trident submarine, the VINSON and other important work that is going to be done.

We are concerned about losing those skilled people, especially now when the economy is so tight in the State of Washington. Boeing is hiring people at an unprecedented level, so there are other opportunities for these people. If we lose them, then we are going to lose some of those skills, expecially on submarines which are nuclear-powered, which are very important.

OVERHAUL AND REFUELING OF THE U.S.S. "ENTERPRISE"

The overhaul and refueling of the *Enterprise* is getting close attention because of the cost involved. What is the Navy's current cost estimate for the *Enterprise* and when would those funds be budgeted?

Admiral WALSH. Current programs for the *Enterprise* and the current funding profile for the *Enterprise* have been going on for sometime.

The funding for the *Enterprise* goes back prior to 1986. We have spent something on the order of $400 million already on *Enterprise*. A good piece of that, about $313 million is for the nuclear cores, which were procured prior to 1986, which are available and can be used only for the *Enterprise*.

Mr. DICKS. You couldn't use them on any other carrier?

Admiral WALSH. No, sir.

Mr. DICKS. You have eight?

Admiral WALSH. Yes, sir, it is a specific design for that reactor. The reactors we have on the other nuclear carriers or any other nuclear ship for that matter are different.

In fiscal year 1989, we will have spent about $79 million and in fiscal year 1990, we have $129 million budgeted in all appropriations.

About $106 million of that is in the O&M, Navy appropriation and the rest is in Other Procurement, Navy, with some government furnished equipment in the weapons procurement, Navy appropriation.

Mr. DICKS. What is the total cost?

Admiral WALSH. In excess of $1.8 billion, sir.

Mr. DICKS. Well, that is a lot of money.

Admiral WALSH. Yes, sir.

Mr. DICKS. You know there is a big question mark in my mind and I am probably as strong an advocate as you have up here for a 15-carrier battle group, but $1.8 billion to overhaul the *Enterprise*, I think, is a major issue.

Admiral WALSH. Yes, sir.

That also includes fuel for the next 15 years of her life.

Mr. DICKS. I understand that, but it is $1.8 billion. What does it cost to build a new carrier—$3.5 billion?

Admiral WALSH. Yes, sir.

Mr. DICKS. That is for a Nimitz-class. *Enterprise* is tough to overhaul because you have eight reactors. You have four new carriers under construction?

Admiral WALSH. Yes, sir.

Mr. DICKS. It seems to me that somebody ought to be thinking about if you are going to have to give up some older carriers like the *Midway* or the *Coral Sea*, while you spend $1.8 billion on *Enter-*

prise. If we are going to take some older carriers out and it is going to cost this much to overhaul this one, I can think of other things to do with that $1.8 billion.

You spent a lot more than you had planned for last time.

Admiral WALSH. Yes, sir.

Mr. DICKS. Because it was a major, major overrun.

Admiral WALSH. I think we have learned from that and those lessons have been incorporated into the planning for this availability.

Mr. DICKS. So you think you are on sounder ground than you were last time?

Admiral WALSH. Yes, sir.

Mr. HEFNER. Would the gentleman yield?

Mr. DICKS. Yes.

Mr. HEFNER. On that $1.8 billion, have you figured in any inflation over the time that it takes to finish the overhaul?

Admiral WALSH. That is a fully funded cost, sir.

Mr. HEFNER. What time frame are we talking about? When will that be finished?

Admiral WALSH. The ship goes into Newport News in fiscal year 1991 and she will be there approximately two years. Then there will be a follow-on modernization availability starting in fiscal year 1993 at the Norfolk Naval Shipyard.

Mr. HEFNER. How do you figure contingency money for inflation?

Admiral WALSH. Whenever you plan an availability, for example, any ship that goes into a shipyard for an availability funding is planned for the length of time that the ship is scheduled to be in the shipyard. The manday estimates for the availability are figured based on the manday rate for that ship. The actual cost of any availability is a function of how long it is going to be in the shipyard and how many mandays are required to accomplish the work and the manday rates in that year. All of that is taken into consideration in estimating the cost of availabilities.

REALLOCATION OF ENTERPRISE FUNDING

Mr. DICKS. If a decision were made not to overhaul and refuel *Enterprise*, but that total overhaul funds would remain stable, how would you consider reallocating those funds to address other overhaul backlogs?

Admiral WALSH. We haven't planned to do that, so I couldn't tell you.

Mr. DICKS. We could deal with this backlog of ships that you mentioned in your testimony?

Admiral WALSH. Yes, sir. By the same token, if we were not to overhaul *Enterprise*, we would be down a carrier.

PHASING OF CARRIER DEPLOYMENTS

Mr. DICKS. We have two new carriers substantially under construction?

Admiral WALSH. Yes, sir.

Mr. DICKS. The *Enterprise* would be in there for a couple of years, wouldn't it?

Admiral WALSH. Yes, sir.

She comes out the middle of 1994. One new carrier the *George Washington* comes in the same time the *Coral Sea* goes out. The carrier phasing is such that we have integrated new carrier deliveries with the carriers to be decommissioned and the deployment cycle.

If we take a carrier out, the remaining carriers are going to have to deploy longer. The sailors are going to be out of homeport more often and we will have the same kind of problem that we had back in the seventies.

Mr. MURTHA. Unless the mission is changed?

Admiral WALSH. Yes, sir.

Mr. DICKS. When do those two new carriers come on?

Admiral WALSH. The *Lincoln,* in fiscal year 1990; the *Washington* comes in in fiscal year 1992, and the *Stennis* comes in fiscal year 1996, and CVN-75 comes in in fiscal year 1998.

Mr. DICKS. But you are going to have the *Enterprise* out then—you are going to get two new carriers coming in during the same time frame when the *Enterprise* would be overhauled?

Admiral WALSH. We have one carrier coming in which will get us to 15 carriers. When the second carrier the *George Washington* comes in, the *Coral Sea* comes out and we remain at 15 carriers. We are at 14 now.

When the *Lincoln* comes in, we go to 15. When the *George Washington* comes in, the *Coral Sea* goes out.

Mr. DICKS. So we are still at 15?

Admiral WALSH. Yes. When the *Stennis* comes in, the *Midway* goes out and we stay at 15.

We are programmed right now to stay at 15 carriers.

Mr. DICKS. What happens when the CVN-75 comes in?

Admiral WALSH. When the CVN-75 comes in, the current plan is for the *Forrestal* to become the Aviation Training Carrier to replace the *Lexington.*

Mr. DICKS. How long would we be operating on 14?

Admiral WALSH. We have 14 now.

Mr. DICKS. How long have we been operating at 14?

Admiral WALSH. I would have to look—a couple of years; three or four.

[The information follows:]

The Navy has been operating 14 aircraft carriers since fiscal year 1987.

NUMBER OF CARRIERS REQUIRED

Mr. DICKS. So you are not talking about a major change in how we have been operating; isn't that correct?

Admiral WALSH. Yes, sir.

Mr. DICKS. If we didn't do *Enterprise,* we would still be operating at 14, just like we have been over the last few years?

Admiral WALSH. We have been trying to get down to a 2-to-1 deployment cycle which means that on the average, a ship is home for 12 months and deployed for six.

With 14 carriers, we can't do that. We have been trying to meet commitments without keeping our people at sea longer than we have to.

Our goal is to keep people home 12 months for every six months deployed.

Mr. Dicks. What are we doing now?

Admiral Walsh. Right now—I would have to get the exact figures, but it is less than 12 months turnaround time and in some cases it is more than six months forward deployed in order to meet the schedules.

[The information follows:]

During the 3 year period from fiscal year 1986 through fiscal year 1988, out of the 17 Carrier Battle Groups which deployed, 6 (35 percent) exceeded the 6 month maximum forward deployment goal. Additionally at any point in time, 25 percent of the carriers do not meet the Perstempo goal of being in homeport 50 percent of their non-deployed period.

With the increase in the Indian Ocean commitment in fiscal year 1988, the Navy was forced to routinely schedule Atlantic Fleet carriers for Indian Ocean deployments in order to preclude every Pacific Fleet carrier from violating the 2-to-1 turnaround ratio goal between deployments. This resulted in a corresponding decrease in the Mediterranean/Atlantic Carrier Battle Group presence.

[Clerk's note.—The Department was asked to provide a more responsive answer, but has not done so in time to be printed in this hearing volume.]

Mr. Murtha. It is more than six months. The CNO told us they will not deploy any over six months.

Admiral Walsh. That is the plan.

Mr. Murtha. That is what he said.

Admiral Walsh. Occasionally, when something comes up, the ship is deployed a little longer. I can give you the actual numbers of what we have done over the last two or three years.

Mr. Dicks. Do that for the record.

[The information follows:]

During the 3 year period from fiscal year 1986 through fiscal year 1988, out of the 17 Carrier Battle Groups which deployed, 6 (35 percent) exceeded the 6 month maximum forward deployment goal. Additionally at any point in time, 25 percent of the carriers do not meet the Perstempo goal of being in homeport 50 percent of their non-deployed period.

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NAVY MEDICAL PROGRAMS

Mr. Murtha. Let me ask a few questions on medical, one of the things that I have taken a special interest in since I went to the Persian Gulf. The men out there didn't complain about the hazardous duty, they complained that their dependents weren't being taken care of in the medical system.

I went to Bethesda and found that we had a number of ICU units closed down and that we were short of personnel there. At Long Beach, it was a disaster in that hospital; 55,000 dependents that weren't being taken care of by the Navy because the hospital was inadequate. They were going to CHAMPUS which costs more money.

Last year we increased, by $87.5 million, the Navy's medical budget. We went back out to Bethesda this year and they were complimenting us on the amount of money, telling me how important that money was to getting their program in order. Now I see that in the O&M side, which is a substantial part of the medical budget, you have a reduction of four percent in medical funding.

Admiral WALSH. Yes, sir.

What we have done with the $87 million—first of all, before the $87 million add, the medical O&M component, without including CHAMPUS, was growing at about five percent a year in real terms.

With the $87 million that was added in fiscal year 1989, we did two things. One, we put the money in to catch up on a lot of things that were backlogged.

Mr. MURTHA. What money is that now?

Admiral WALSH. The $87.5 million that was added by Congress in fiscal year 1989. We essentially split it in half. A good piece of that went into catching up on the backlog of medical equipment, MRP, and that sort of thing.

At the same time, the Secretary of the Navy had initiated a blue ribbon panel to look into medical problems across the Navy. Out of that blue ribbon panel, there came a series of recommendations. A number of those recommendations included things such as increasing contracting to bring more people into the hospitals, these initiatives are to recapture the CHAMPUS workload, and bring it back in-house.

About $35 million of the $87 million went to fund those blue ribbon panel initiatives.

The premise of this whole thing is that as we bring people inhouse and we recapture the CHAMPUS workload, there should be some savings, because on the average, if it costs you $1.00 to do something in a naval hospital, it costs you $1.60 to do it in CHAMPUS.

Mr. MURTHA. Admiral, don't try my patience. I can't believe this. What are we talking about—you added a few ICU units at Bethesda? Long Beach is in the same shape it was in a year ago when I was there.

You are so far behind, you are 3,500 short of medical people and personnel throughout the Navy. There is no way you can cut this budget and increase the efficiency. You might be able to increase efficiency, but you can't make up for the deficiency that you currently have because you are so far behind.

It didn't take a blue ribbon panel for me to see what the problem was. You haven't been spending enough money on medical programs.

When I go to the Persian Gulf and I come back and find out the dependents of the families aren't being taken care of, I get mad. Then when I try to fix the problems, I get nothing but resistance from the Navy. The CNO and the Secretary of the Navy tell me they are taking care of the problem yet every time I look at the budget, it is being cut.

You can't solve the problem by cutting the budget. I realize that you don't make the ultimate decision on how this money is dispersed, but I can't believe you again have cut this money out of the medical services of the Navy.

Did you put the $87.5 million into the budget this year that we added on last year?

Admiral WALSH. No, sir.

We already had built into the budget $100 million of additional contracting money to bring more workload in-house.

One of the things that we are looking at very hard is how fast you can actually hire qualified people and bring them on board so that you are getting the right kind of people into the facilities.

We have started a Rapid Implementation Team at Bethesda.

With Bethesda, it is close and we have a lot of oversight. We have put some of our best people in there and we are seeing what we can do and how fast we can do it to improve things. From that, we are learning what we can do for the rest of the institutions.

Mr. MURTHA. Long Beach and many places throughout the Navy can use more money.

If you compare your medical budget per person to the budget of the other services, you are way behind and it is not fair to the people who are serving in the Navy, and the Marine Corps, that they are getting this kind of service.

You also don't have money in for the Persian Gulf operations. You are going to have to reprogram for that.

This budget is pretty hollow in those two instances, it looks like to me.

Mr. Dicks?

CIVILIAN PAYROLL FLEXIBILITY

Mr. DICKS. The fiscal year 1989 appropriations conference included a compromise general provision that provided additional flexibility in the operation of industrially funded activities by directing the services to provide such major claimants with authority to exceed their assigned payroll allocation figure by up to five percent without prior outside approval.

Activities are required to provide justifications to the service controller for such adjustments within two weeks of their implementation. Any adjustments beyond five percent continues to require prior approval. What has been the experience thus far in implementing this provision?

Admiral WALSH. We made that authorization to the claimants right after it was approved and I think by and large the claimants have asked for that authority.

Across the Navy in fiscal year 1989 we are just slightly ahead of plan in total payroll expenditures and we are reviewing that right now with a mid-year review.

With a couple of specific exceptions, I don't believe we will end up at a total of five percent above plan.

Mr. DICKS. What we are trying to do is just give some flexibility to the managers.

We have knocked down your personnel ceilings a few years ago because everybody told us that they wanted a little more flexibility in their ability to manage.

They had rigid ceilings that produced overtime and temporary problems. Then the Navy came up with manage to payroll, which was a clever way, I am sure by the controller's office or someone, to try and put back in place the same thing with a new title so we had to adjust that because the people running the facilities had the same personnel and management-type problems.

We have heard very few complaints since this new provision went into place.

You are not up here asking for that to be repealed, are you?

Admiral **Walsh**. No, sir.

Mr. **Dicks**. You think it is all right the way it is?

Admiral **Walsh**. Yes, sir.

Mr. **Dicks**. Five percent seems to be a workable number. That basically covers it.

USE OF TEMPORARY EMPLOYEES

Mr. **Dicks**. Let me ask you about temporaries.

Last year I asked a lot of questions up here about the use of temporaries in our industrially funded facilities and whether we were going to have health care coverage for these people, how many there were, and for what duration.

I think there has been some progress made in trying to develop a policy regarding temporaries. Can you give us any general information about the use of temporaries?

Admiral **Walsh**. I will have to take that for the record, sir.

[The information follows:]

Navy activities, especially industrial fund activities, make use of temporary employees to provide a measure of work force flexibility in accommodating surges and valleys in workload. The budget reflects non-full-time permanent end strength for U.S. citizens at Navy Industrial Fund activities of 7,417 in fiscal year 1988, 6,200 in fiscal year 1989, 5,326 in fiscal year 1990 and 4,271 in fiscal year 1991. These numbers represent 4.3 percent, 3.6 percent, 3.3 percent and 2.7 percent, respectively, of the end strength estimates for U.S. citizens. The non-full-time permanent estimate reflected in the budget is comprised mostly of full-time temporary employees but also includes small numbers of other categories such as intermittent, part-time permanent and part-time temporary employees.

As to health insurance for temporaries, Section 301 of Public Law 100-654 states that the Office of Personnel Management shall prescribe regulations to provide for offering health insurance benefit plans to temporary employees who have completed one year of employment. However, the law prohibits the government from contributing to the cost of the insurance coverage. The entire cost is covered by the employee.

NEW THREAT UPGRADE (NTU) PROGRAM

Mr. **Dicks**. How has the Navy implemented congressional direction for fiscal year 1989 on the new threat upgrade program?

Admiral **Walsh**. We have applied the funds that were provided by Congress for the new threat upgrade.

We have one potential problem, the U.S.S. *Halsey,* which was originally planned to be done in the Long Beach Naval Shipyard, was directed by Congress as a public-private competition.

We are now putting together a bid package for that competition which was not previously planned. It is likely that the private side will win that competition, but we have incurred some cost for the initial planning at Long Beach. There has also been a decrease in the planned workload at Long Beach because of the directed change.

There have been perturbations in the system, but we are on track.

Mr. **Dicks**. Some have suggested that the Navy has unfairly structured the competition on this program to penalize private shipyards.

How do you respond to those charges?

Admiral **Walsh**. I think the private shipyards have one more contract than the public shipyards for the new threat upgrades. The expectation is that public-private competitions will be won on the private side.

Mr. **Dicks**. How have additional funds provided for West Coast overhauls been allocated?

Admiral **Walsh**. I am not sure I understand the question, sir.

Mr. **Dicks**. I think we provided $60 million last year for additional West Coast——

Admiral **Walsh**. We have a total of $240 million that was added by Congress to the 1989 appropriation for depot maintenance, new threat upgrades, SRAs, and some East Coast work was also added.

Mr. **Dicks**. Why don't you give us, for the record, what you did with that $60 million.

[The information follows:]

Congressional language specified a total of $120 million of the $240 million fiscal year 1989 augmentation be spent for West Coast work on surface ships—$60 million for the NTU program on the West Coast and $60 million for enhancements of current work packages on the West Coast. A breakdown of how these funds are being spent is as follows:

Puget Sound public sector—$2.7 million for predominantly combat and communication systems alterations on two ships and $5.5 million for various repairs to propulsion plants on one ship.

Navy's Yokosuka ship repair facility—$.2 million for various repairs on propulsion plant on one ship.

Navy's Guam ship repair facility—$1.4 million for firefighting alterations on two ships.

Long Beach private sector—$21.0 million for predominantly combat and communication systems alterations on four ships, and $3.7 million for firefighting alterations on two ships.

Seattle private sector—$1.7 million for firefighting alterations on one ship.

San Diego private sector—$7.7 million for predominantly combat and communication systems alterations on four ships, $5.1 million for firefighting alterations on three ships and $5.2 million for various repairs to the propulsion plant on two ships.

Pearl Harbor private sector—$.1 million for various repairs to the propulsion plant on one ship.

San Francisco private sector—$.4 million for crew living space alterations on one ship, $1.0 million for firefighting alterations on one ship and $1.7 million for propulsion plant repairs to one ship.

A total of $9.6 million is designated to be spent at various undetermined West Coast private and public shipyards for predominantly combat and communication systems alterations on a number of ships. As directed by Congress, $35.0 million for repair and $18.0 million for New Threat Upgrade will be spent on one cruiser at an undetermined West Coast yard.

Mr. **Dicks**. Regarding NTUs again, what is the funding level and acquisition strategy for fiscal years 1990 and 1991 on this program?

Admiral **Walsh**. The installation schedule for fiscal year 1990 will be a total of four; for 1991, five are planned. I will provide you for the record the actual schedule of what is planned by year, if you would like.

Mr. **Dicks**. That would be fine.

[The information follows:]

The current NTU overhaul schedule for fiscal year 1990 and fiscal year 1991 is detailed below:

Ship	Fund (millions) (repair and mod.)	Start date	Stop date	Shipyard
Fiscal year 1990:				
U.S.S. Gridley (CG 21)	$50.3	1-22-90	2-22-91	Public/private competition.
U.S.S. California (CGN 36)	[1] 232.0	2-5-90	10-11-91	Navy Shipyard Puget.
U.S.S. Wainwright (CG 28)	51.6	7-17-90	8-17-91	Public/private competition.
U.S.S. W.H. Standley (CG 32)	48.7	6-4-90	7-4-91	Public/private competition.
Total	382.6			
Fiscal year 1991:				
U.S.S. Mississippi (CGN 40)	52.1	10-15-90	10-14-91	Navy Shipyard, Norfolk.
U.S.S. J. Daniels (CG 27)	55.5	11-13-90	12-13-91	Public/private competition.
U.S.S. Reeves (CG 24)	54.0	1-10-91	2-10-92	Public/private competition.
U.S.S. S. Carolina (CGN 37)	[1] 278.0	4-1-91	1-13-93	Navy Shipyard, Norfolk.
U.S.S. Sterett (CG 31)	50.9	6-10-91	7-10-92	Public/private competition.
Total	490.5			

[1] Also includes funding for nuclear refueling.

NAVY'S USE OF DOLPHINS FOR RESEARCH

Mr. DICKS. What can you tell me about the dolphin program; use of dolphins, marine mammals, a very controversial issue.

Admiral WALSH. I will have to take that for the record, sir.

Mr. DICKS. All right.

[The information follows:]

The purpose of the Navy's marine mammal program is to investigate the use of marine mammals to address Navy missions. This program, conducted by the Naval Ocean System Center (NOSC), has been very successful, resulting in 3 fleet marine mammal systems, operated by Explosive Ordnance Disposal Mobile Unit Three in Coronado, California and Unit Four in Key West, Florida. The Navy captures and maintains its marine mammals in accordance with the provisions of the Marine Mammal Protection Act (MMPA) and the Animal Welfare Act. All marine mammals are collected under permit from the Nations Marine Fisheries under the MMPA or under a special authorization to take up to 25 marine mammals per year for national defense purposes.

The animals are trained for specific tasks as part of the research and development programs or for an existing system under O&MN or OPN. We do not train the animals for any tasks which would intentionally cause injury or death to the animal. The majority of the training at NOSC is done by employees of the "SEACO" Division of Science Application International Corporation (SAIC) under a competitively awarded contract. Recently, one of SEACO's employees has made numerous allegations about our mistreatment of the marine mammals. The Marine Mammal Commission, an independent Federal Commission charged with oversight of marine mammal protection and permits, was invited by the Assistant Secretary of the Navy, Research, Engineering and Systems (ASN(RE&S)) to investigate the allegations. The Marine Mammal Commission team found the allegations to be substantively lacking.

UNNEEDED SUPPLIES/INAPPLICABLE INVENTORY

Mr. MURTHA. Admiral, on unneeded supplies, we have information that at Pearl Harbor the amount of unneeded inventory totaled about $87 million; at Oakland, it totaled $1.1 billion. This is oversupply of spare parts and things like that.

The Surveys and Investigative staff looked into this. Have you seen the S&I study in this regard?

Admiral WALSH. No, sir; I have not.

Mr. **Murtha**. Do you have a problem with getting these supplies distributed to the various agencies that need them?

Admiral **Walsh**. I don't know that distribution is the problem there. There is something called inapplicable stock. That is material which is currently in the supply system for which the supply system does not expect to have a requirement within next 12 months and that is a pretty big number, but it is, I think, a little bit misleading in a sense.

There are really three components of inapplicable stock. The first component is where you buy spare parts based on new ships or aircrafts coming into the fleet and having a demand for them after you put this stock on order. But before it delivers, the delivery schedule of the ships or the aircraft is delayed.

For example, if F/A-18 deliveries are delayed, we can't stand up the squadrons as planned, the stock that you have coming into the bins to support those aircraft is technically inapplicable because you won't use it within 12 months. It might be 13 months, but from our perspective that stock is really usable. It is just going to take longer than planned to be used.

The second area is the stock which we carry in the Navy supply system for ships and aircraft systems which are no longer in the Navy, but which we still support under Foreign Military Sales.

For example, there may be some material for ships and aircraft originally planned to be in the Navy when the stock was ordered.

For example the 16 frigates we are retiring, we have stock for those ships. We will maintain that stock on hand in order to support the FMS sales of those ships.

So there are two of the three components of inapplicable stock for which there is a good use.

There is a third component where we have ordered the spare parts, but by the time it is delivered, either the component has been changed, or have changed the weapons system which it supports. The stock is no longer "applicable" for the requirement and we are working very hard to try and reduce that.

Mr. **Murtha**. What is the amount of that stock?

Admiral **Walsh**. I can't give you a number right now, Mr. Chairman, but I will provide that for the record, sir.

Mr. **Murtha**. Fine.

[The information follows:]

The amount of "inapplicable stock" generated due to modification of equipment for the Department of the Navy is $70.0 million for the four year period of fiscal year 1985 through fiscal year 1988.

FISCAL YEAR 1990 O&M REQUEST FOR THE MARINE CORPS

Mr. **Murtha**. The Navy has increased its O&M by three percent and you cut the Marine Corps' O&M by four percent. How did that happen?

Admiral **Walsh**. It was a combination of things, sir.

First of all, if you are looking at Marine Corps readiness, Marine Corps readiness is more than OMMC.

All Marine Corps aviation is paid for out of the O&M Navy account. All Marine Corps medical is paid for out of the Navy O&M account, as are Maritime Prepositioned Ships.

So if you are looking at Marine Corps readiness, it is more than just the OMMC account. OMMC pays for primarily land forces and Marine Corps bases.

What we do within the Department of the Navy is we try and strike a balance against all requirements irrespective of account and we look at the things that have to be done and put our priorities on them and let the accounts fall as they may.

LONG-TERM IMPACTS OF O&M SHORTFALLS

Mr. MURTHA. It is interesting to me that the Navy got an increase and the Marine Corps got a decrease.

Admiral, it is very difficult for us to make legitimate decisions on O&M issues when you and General Carson justify your request by saying, "it is the amount of money available." We know that, but for us to be able to make decisions and add money at the appropriate place, we have to know what is going to hurt and I can't imagine that when you reduce O&M substantially, you are not going to hurt the readiness of the Navy and the Marine Corps. That is all there is to it.

It is frustrating to me that you come before the Committee and say these things. I understand when somebody else makes the cuts you have to do the best you can, but if you don't give us the information we need, there is no way we can make the right decision. So we have to flounder around and try to get the best information we can.

You don't help us a bit when you just say everything is all right because you know very well in four or five years, we are going to be right back where we were in the late seventies with steaming hours, flying hours, increased accident rates and even category fours which means increased amount of money for training.

You are not on-the-level with us when you don't give us good justification for the information, you just make excuses for somebody else who has made the cuts.

General CARSON. Mr. Chairman, I would like to add here that in my statement, both in testimony and in the statement that I submitted for the record, I am not disagreeing with you when you said four or five years.

I repeatedly emphasized the short term and my statement emphasizes that during that two-year short term, that there is a growth in both depot maintenance backlog and real property.

Mr. MURTHA. You know very well if it continues like this, it is going to be a real problem maintaining readiness for both services. For instance, when the Navy doesn't include money for the Persian Gulf operations. You have ships there and you know funding for that effort has to come out of someplace.

Everybody looks at the Defense budget as having deep pockets. They want Coast Guard and VA money out of Defense. At some point we are not going to have the national security we need.

Of course, this is an example of it. This is the start of cutting back on the readiness side that is so important to national security in my estimation.

Mr. McDade?

REPAIR OF U.S.S. "SAMUEL B. ROBERTS"

Mr. McDade. Thank you, Mr. Chairman.

In fiscal year 1989, the Congress provided $96.5 million for the repair of the U.S.S. *Samuel B. Roberts*. Was the total $96.5 million required for the *Roberts* repair?

Admiral Walsh. No, sir. Forty-six million dollars is our current estimate for the repairs on the *Roberts*.

The $96 million that was added by Congress was also included as part of the depot maintenance floor, which was established by Congress in the 1989 apprpriation.

The remaining $50 million is, therefore, going to be applied to depot maintenance for other ships.

We have an emergent requirement on the U.S.S. *Detroit* where she had a main reduction gear problem and for the U.S.S. *Spruance* that went aground a couple of months ago. All the money provided will be spent on ships' depot maintenance.

NAVY BUDGET LIAISON OFFICER

Mr. McDade. Let's discuss the legislative budget liaison ceiling.

The fiscal year 1989 DoD Appropriations Act provided a total of $15 million for the Department of Defense legislative liaison function. This was an increase of $638,000 over the 1988 level. However, the Conferees stated that at least $180,000 should be used to increase the funding of the Navy Comptroller liaison office. The intent of the conferees was to increase the manning of the Comptroller liaison staff. Has the Navy increased the funding for the Comptroller liaison office by $180,000?

Admiral Walsh. Yes, sir. We have annualized it.

Mr. McDade. Was it used to increase the manning level?

Admiral Walsh. Yes, sir.

Mr. McDade. How many people are——

Admiral Walsh. Two additional military billets—one Officer, one enlisted, and one civilian position.

Mr. McDade. Is that more people than last year?

Admiral Walsh. Yes, sir. That is an increase of three.

Mr. McDade. Did you have zero last year?

Admiral Walsh. No, sir, there were two Officers and one TAD enlisted man last year.

It is an increase over what we had.

Mr. McDade. How many people did you have last year?

Admiral Walsh. Two officers. We had two, and we added a total of three new positions.

Mr. McDade. Are they on board,

Admiral Walsh. I think they are in the process right now, sir.

Mr. McDade. When are they going to be on board?

Admiral Walsh. Before the end of the year, sir.

Mr. McDade. How soon—thirty days?

Admiral Walsh. I will have to get that information for you, Mr. McDade. I don't know where they stand in the procurement process.

Mr. McDade. Does anybody know?

Admiral Walsh. I can get that information for you for the record, Mr. McDade.

[The information follows:]

The two additional military billets were officially established effective 1 May 1989. The enlisted billet has been filled. Prospective candidates for the officer billet are currently being interviewed, and should be on-board by mid-summer. The civilian management assistant position is also scheduled to be filled by mid-summer.

USE OF UNOBLIGATED FUNDS FOR SHIP REPAIRS

Mr. McDade. We are watching you close on this, Admiral, and about a few other things that you have heard about today.

Let's talk about unobligated funds for ship repairs.

In fiscal year 1982, Congress authorized the Navy to utilize unobligated, expired O&M funds for unplanned ship repair and overhaul work identified after the end of the year in which the ship entered overhaul.

The legislation allows the reprogramming of expired O&M funds without approval from the Congress and extends the appropriation life until the unobligated funds move into the Merger Account.

The Committee's Survey and Investigative staff had an opportunity to talk with Navy officials concerning the use of unobligated funds for ship repair and overhaul. The Navy officials were unable to identify the amount of expired funds used in prior years to finance unplanned new work.

Without a record of exactly how these expired funds are used, the Navy's funding flexibility could be abused by under-estimating the cost of an overhaul at induction and then charging off cost overruns as new work.

There are a host of things that could happen. Tell us why you haven't kept records that would provide the Congress with a complete accounting of all ship overhaul new work that is accomplished with the use of expired funds.

Admiral Walsh. I had a conversation with the S&I staff and I think they were asking the wrong questions. We met towards the end of their study and I had a hard time understanding the question.

Mr. McDade. Do you understand now?

Admiral Walsh. Yes, sir.

I had a long conversation with them and I told them what they should have been asking.

Mr. McDade. Is it your impression that the Navy has been keeping records?

Admiral Walsh. Yes, sir. We keep records of the total cost that we have spent against a ship.

What we have not done, is identify within the cost of a particular ship, how much of that money was in new obligation authority and how much of it was in deobligations.

When a ship goes into overhaul we have a pretty good idea of what the cost of that ship is going to be, both from the amount of money that it is going to cost for the planned work and for what is called change orders or the amount of work that will emerge at some later time.

If the ship starts in overhaul late in the fiscal year, then the change orders occur after the close of the fiscal year. It is those funds that are paid for out of expired funds.

Generally speaking, the controllers have not been trying to keep track of which ones were which. They were keeping track of the total cost of the ship and the total cost of the ship was not jumping out of sight just because it was completed past the end of the year.

Mr. McDade. You are testifying that the Navy is going to keep such records of the unexpired funds?

Admiral Walsh. Yes, sir. I can recreate for you, for example, how much expired funds were applied——

Mr. McDade. Our staff ought to be able to talk to you people and get a meeting of minds.

Have you got a meeting of minds?

Admiral Walsh. I think so. They started in the field instead of starting with us.

Mr. McDade. They did see you now? They talked to the head man?

Admiral Walsh. Yes, sir.

Mr. McDade. So you have a meeting of the minds?

Admiral Walsh. I hope that when we see their report, we will recognize it. Yes, sir.

Mr. McDade. If you need to talk to them one more time, you better call them and make sure you have a meeting of the minds.

The Committee is trying to be helpful in giving you authority to go into these funds that have not yet expired, but we are not going to write blank checks.

Admiral Walsh. We are not trying to create new work out of this. We will be able to show you that what we have executed on any individual overhaul——

Mr. McDade. Within a week or ten days, when you have concluded your conversation with the S&I staff, make us a report, will you?

Admiral Walsh. Yes, sir.

[The information follows:]

The Navy provided the House Appropriations Committee's Surveys and Investigative staff information which detailed costs by ship for 32 overhauls executed in fiscal year 1986. A summary of information provided follows:

Fiscal year 1986 budget	$2,539,549
Fiscal year 1986 revised estimate	2,573,086
Obligated by 30 September 1986	2,269,732
Obligated after 30 September 1986	323,289
Current estimate of final cost ship maintenance and modernization program	2,598,036

The data reflects both repair and modernization funding for overhauls. All of the overhauls except one submarine are complete and financial records have been closed on all except three. Significant changes, if any, to the current estimate of final cost to the Ship Maintenance and Modernization program are not anticipated. Note that the current estimate of final cost is within 3% of the initial budget estimate for fiscal year 1986 submitted in the January 1985 President's Budget and within 1 percent of the revised estimate for fiscal year 1986 contained in the January 1986 submission. The revised estimate for fiscal year 1986 reflects the amount appropriated as adjusted by the Navy to reflect revised schedules and prices. Overhaul budget estimates have been reasonably close to actual costs and there has not been the tendency to grow the total scope of the overhaul program over and above the level originally approved by the Congress. Admittedly, we have not previously differentiated between new obligations for change orders and obligation adjustments for within scope increases. The Navy has instead focused attention on managing total work efforts within available resources. The Navy is now implementing procedures to separately track new obligations and obligation adjustments on overhauls which occur after the appropriation expires.

PUBLIC-PRIVATE COMPETITION

Mr. **Dicks**. You talked in your statement about the public-private competition.

How would you characterize that effort at this point in time?

Admiral **Walsh**. On the ship side, I think it has been our experience over the last couple of years now that the public yards have won most of the submarine nuclear work and the private side has won most of the surface ship non-nuclear work.

Mr. **Dicks**. So there is no such thing as public-private competition.

Why waste all the money? Give the subs to one side and the surface ships to other side.

Isn't that what has happened?

Admiral **Walsh**. Part of that, I think, is wrapped up now in the shipbuilding side as well where the private yards have the opportunity for new construction and the public yards are not building submarines. They see their best interest in bidding for new construction rather than overhaul.

If the Shipbuilding and Conversion, Navy, SCN, picture were to change or the budget changes, that situation could change as well.

On the public side, we have two shipyards which are not nuclear-capable and they are still very much interested in all of that work, so they continue to put in bids.

They win some, but they don't win as many as they would like.

Mr. **Dicks**. These are public yards?

Admiral **Walsh**. Yes, sir. They have won some of the competitions, but not as many as they would like to win. As a general rule, the private yards win most of the public-private competitions for surface ships, non-nuclear work. I don't think it is a concept that we want to throw out though.

Mr. **Dicks**. Why not?

Admiral **Walsh**. I think it still works to make people sharpen their pencils on what they think a contract will be, and as the construction picture changes there may be changes on the submarine nuclear side.

Mr. **Dicks**. The private shipyards get 100 percent of new construction?

Admiral **Walsh**. Yes, sir.

Mr. **Dicks**. Everything that is done in that area goes to the private yards? Is that correct?

Admiral **Walsh**. Yes, sir.

Mr. **Dicks**. What is the split on overhaul work? It used to be 70 percent of the overhaul work was to go to the public yards; 30 percent to the private yards.

What is that split today?

Admiral **Walsh**. I can get the exact split for you. The 70-30 split—I don't have the exact figures for fiscal year 1989 now.

[The information follows:]

The split for ship depot level maintenance funding for fiscal year 1989 is:

	Percent
Public	51.3
Private	43.5
Public/private competition (unawarded to date)	5.2

Mr. Dicks. It looks like 50–50.

Admiral Walsh. That is the split that we have been encouraged to go to by the House Armed Services Committee, the HASC. The HASC encouraged the Navy to move towards a 60–40 and 50–50 split if nuclear-propelled ships were excluded.

I will have to get the exact numbers. There is a wide divergence about whether you are talking about nuclear work and whether or not you exclude that. By and large, on the non-nuclear work the private yards get most of the work.

[The information follows:]

The split for non-nuclear ship depot level maintenance funding for fiscal year 1989 is:

	Percent
Public	32.1
Private	60.7
Public/private competition (unawarded to date)	7.2

Mr. Dicks. What is the split on SRAs?

Admiral Walsh. That is included. When I am talking about public-private competition, I am talking about SRAs as well as overhauls.

ASSET CAPITALIZATION PROGRAM

Mr. Dicks. What are you doing on trying to modernize the public shipyards, the asset capitalization program?

Admiral Walsh. We started off with a pretty big program——

Mr. Dicks. Now you have got a little program?

Admiral Walsh. Yes, sir. The General Accounting Office, GAO, and others found that we were not executing it very well.

The first place that we had a problem recognized was in the air rework facilities. We started with the Naval Aviation Depots to make some improvements there.

We have an ongoing process to make sure the things we are doing are the highest priority and that we actually install and use what we buy.

There were some problems in that we were buying equipment, but didn't have the minor construction funds to install it correctly and equipment was being installed without the proper air conditioning, etc.

We have a handle on that now and have a smaller program, about 50 percent of what we originally had and we have made a significant management effort to ensure it is executable and productive for us.

Mr. Dicks. If you had to characterize the deficiencies both in your air depots and in your public shipyards in terms of modernization of equipment, what would be the items you would list as the major deficiencies?

Admiral Walsh. I don't have that information at hand.

Mr. Dicks. You study everything over there. You must have done some studies on this, about if you are looking at asset capitalization and comparing yourself with the public yards—I mean, the private yards and what is going on in the world.

When I am up there, it doesn't look very modern to me. It looks like you have a lot of old equipment.

In terms of computer design and the kind of things you see at Boeing or at Lockheed or major aerospace firms, you don't see a lot of that in public yards?

Admiral **Walsh**. I don't think you see quite as much in the private yards as well.

I think the shipbuilding industry is a lot different in a lot more ways than meets the eye. The way you do the work, the length of time that it takes you to do the work, the kind of environment that you are in is different than in an aviation rework facility or an R&D lab.

I would guess that there are a lot of things that we would like to do, particularly in the management information systems world because one of the problems we have in cash management and productivity in the shipyards has to do with the ability to get information in a timely fashion.

On the other side of the coin, every time you try and get ADP, there is the concern that you are trying to do too much in ADP.

We had a Congressional reduction last year of $90-some million because we were spending too much money for ADP.

There has to be a balance there. That is one of the things that we are struggling with right now.

Mr. **Dicks**. Has the Navy implemented post-investment analysis on all of its ACP purchases?

Admiral **Walsh**. Yes, sir.

There was a GAO audit. I guess that brought this up and primarily in the R&D labs is where they had the problem.

We have since instituted a review of all ADPACP and any other non-ADPACP in excess of $500,000.

By and large, that accomplished about 90 percent of everything that is out there and that review is now ongoing.

[Clerk's note.—Subsequent to the hearing Admiral Walsh revised his remarks to read as follows: "Not yet. Post investment analysis has been directed for a sampling of ACP items at the Naval Air Syscom activity and just recently at the shipyard. We are in the process of expanding to the other activities now."]

Mr. **Dicks**. The Navy is the only service with industrially funded R&D functions.

Admiral **Walsh**. Yes, sir.

Mr. **Dicks**. Does the Navy monitor the ACP purchases of these R&D functions to ensure that equipment classified as in development is not obtained with industrial funds?

Admiral **Walsh**. Yes, sir; and that is part of the process that I just described.

Mr. **Dicks**. What is the Navy's equipment purchasing guidance for industrially funded R&D functions?

Admiral **Walsh**. The space and warfare command, which is the primary systems command with oversight for the R&D labs has been into this pretty heavy and I could get for you the specific guidance to them.

[The information follows:]

Industrially-funded R&D activities follow the same ACP purchase rules as all other Navy industrially-funded activities. Specific Department of Navy guidance includes a prohibition against using ACP funds for any equipment initially procured and furnished as part of a weapon system/support system that is funded by the weapon system manager. ACP equipment purchases for the R&D Centers are largely off-the-shelf commercially available equipment such as computers, work stations, scientific instrumentation or test platforms and systems which may be fabricated for particular laboratory usage using available components and existing known technology. Items "in development" would be for a particular weapons system and would be funded by project funds for that system, not by the ACP. ACP is for "general purpose" equipment and "in development" items do not fall in that category.

Mr. DICKS. Mr. Chairman, I have no further questions.

Mr. MURTHA. Any further questions, Mr. McDade?

Mr. MCDADE. No further questions.

Mr. MURTHA. We have other questions for the record, and Mr. AuCoin and Mr. Miller have some questions for the record also. Thank you gentlemen.

[CLERK'S NOTE.—Questions submitted by Mr. AuCoin and the answers thereto follow:]

FISCAL YEAR 1991 MAINTENANCE AVAILABILITIES BY SHIPYARD OWNERSHIP

Question. Assistant Secretary of the Navy Everett Pyatt has stated in testimony before the Seapower Subcommittee of the Armed Services that he "expect(s) about 50% of the Navy's fiscal year 1991 maintenance and modernization workload to be available to the private sector." Please provide for me the planning schedules for maintenance and modernization that will accomplish this goal.

Answer. The current fiscal year 1991 schedule of ship depot maintenance and modernization availabilities is funded as follows:

	Percent
Public	49.4
Private	40.6
Public/Private Competition	10.0

Because of the dynamic nature of the ship depot maintenance public/private competition schedule and the sensitive business information it contains, the Navy releases the exact schedule (ships, yards, dates, etc.) for a given fiscal year three months before the start of that fiscal year. Thus, the exact workload available to the private sector will be released in June, 1990.

LONG BEACH NAVAL SHIPYARD

Question. I have received word from workers at Long Beach Naval Shipyard that the Navy is taking work out of that yard and transferring it to the Naval Ship Repair Facility in Yokosuka, Japan. Is this true? If so, does the move meet the Appropriations Committee general provisions requirement prohibiting repair of U.S. homeported ships in foreign yards except for emergency repairs?

Answer. No. Maintenance availabilities have not been transferred from Long Beach Naval Shipyard to Yokosuka. The Navy, for operational reasons, has made several homeporting changes between Japan and West Coast on a one-for-one basis. Depending on what maintenance availabilities these ships were scheduled to have, various West Coast shipyards may gain or lose work.

PERSONNEL REDUCTIONS AT NAVAL SHIPYARDS

Question. According to your budget justifications, significant personnel reductions have been budgeted in the Naval Shipyards in fiscal year 1990 and fiscal year 1991. Are these reductions in the number of temporary or permanent employees? How many temporary employees are currently employed at Navy Shipyards? Are the temporary employees performing work that permanent employees are unable to do?

Answer. Civilian staffing reductions at Naval Shipyards will impact both permanent and temporary population numbers. Over the two year period of fiscal year 1990 and fiscal year 1991, the full-time permanent population is projected to decline by 5,538 while the non full-time permanent strength will drop by 1,962. Over this period the full-time permanent population is expected to decline by 8.6 percent while the "other" population will decline by 68.5 percent. The actual on-board count of non-full time permanent employees who are mostly full time temporaries at the end of March 1989 was 2,932. These temporary employees perform the same kind of work as permanent employees but they perform an increment of effort for which continuous, long term requirements and funding are uncertain.

SUBMARINE INACTIVATIONS

Question. What is the status of the nuclear submarine decommissioning program? Please include the schedule for dismantling the defueled reactor plants and the level of funding needed for fiscal years 1990–1995. What is the current backlog of plants that require dismantling and what options have you looked at for the dismantling and disposal program?

Answer. The nuclear submarine inactivation program is being executed as planned. Defueled reactor plants are dismantled by removing the reactor compartment from the ship and burying it. Three reactor compartments are scheduled for disposal in fiscal year 1989. Commencing in fiscal year 1990, six reactor compartment disposals per year are budgeted.

Budgeted funding for reactor compartment disposals in fiscal year 1990 and fiscal year 1991 is $37.9 million and $35.5 million, respectively. These costs do not include ship inactivation, associated inactivation expenses (e.g. towing the vessel from the inactivation site to the storage site) or the cost of hull disposal.

Sixteen reactor compartment disposals are currently backlogged.

No options are being considered in the reactor compartment disposal program. In November 1984 the Secretary of the Navy stated that ultimate disposal of reactor plants from inactivated nuclear submarines would be by removal and land burial of the reactor compartment.

Question. What is the annual cost of maintaining an inactive submarine in protective floating storage? What has been budgeted in FY 1990 to cover these costs?

Answer. Annual maintenance costs are $40–45 thousand per hull. The fiscal year 1990 budget contains $1,171,000 for inactive hull maintenance.

Question. When will your facility where the decommissioned nuclear submarines are stored reach capacity? Is there any long range plan to increase the capability of these facilities?

Answer. Inactive nuclear submarines are stored inside the controlled industrial area (CIA) at Puget Sound and Norfolk Naval Shipyards. Puget Sound CIA will be at capacity (19) in December 1989. Norfolk CIA will reach capacity (11) in mid-fiscal year 1991.

An unspecified minor military construction project is being developed for possible execution in fiscal year 1990 to expand the storage capacity of the Puget Sound CIA by 10 hulls. A military construction project which would expand the Puget Sound CIA capacity by another 18 hulls is planned for fiscal year 1992.

[CLERK'S NOTE.—End of questions submitted by Mr. AuCoin. Questions submitted by Mr. Miller and the answers thereto follow:]

AIRCRAFT MAINTENANCE

Question. I have a question about aircraft maintenance as it relates to toxic waste disposal. I do not know the proper term for the procedure, but I am aware that some years ago the Air Force was beginning to use an air-gun type of device which would fire very small plastic pellets to strip paint from their aircraft. It is very similar to a sand-blaster.

First, does the Navy use such a technique to strip its aircraft or is the Navy using chemical solvents?

If chemicals are used to strip the paint, what is done with the waste, and how much is spent annually to properly dispose of it?

The use of this pellet firing device appears to be safer from an environmental standpoint than using chemicals. From a cost standpoint, is this a less expensive alternative to using chemical paint removers?

Answer. The method of stripping paint from aircraft utilizing plastic pellets, called Plastic Media Blasting (PMB) is used by the Navy to strip aircraft components. For airframes, we use chemical paint stripping solvents. The Navy has serious concerns on the effects of PMB on aircraft structural integrity. We have developed a test and evaluation program to determine the structural effects of the PMB process. The test plan has been approved and testing has begun. The test schedule calls for preliminary results on aircraft structural integrity to be available by early 1990. At that time we will know when to begin full scale aircraft depainting by the PMB process.

The stripping waste by the majority of the Naval Aviation Depots is collected and placed in containers. Afterwards, the wastes are transferred to the Defense Reutilization and Marketing Organization for disposal. Subsequently, these wastes are taken to an authorized land disposal site. The Naval Aviation Depots spend approximately $4,210,000 annually on disposing waste generated through aircraft depainting.

It seems that, in the long run, the PMB method of depainting will be more cost effective than chemical stripping. Especially so, where waste pellets can be isolated from paint chips and so disposal costs will be further reduced by reducing the amount of waste.

Furthermore, it is possible that the solid waste may be burned in the future, reducing waste disposal costs even further.

SHORTAGE OF NAVY AIRCRAFT

Question. In 1987 the Congressional Budget Office (CBO) released a report announcing the impending aircraft crisis in the Navy. Using the Navy's own requirements and retirement goals, the CBO estimated that the Navy's aircraft shortage would grow from a 1987 level of 110 aircraft to 176 aircraft by 1994. That study was based on the Navy's 1987 five-year plan, which optimistically projected 7 percent real annual growth in its aircraft account. If the aircraft account were limited to zero real growth, and if the cost of the Navy's planned A-12 Advanced Tactical Aircraft escalates along traditional lines, CBO researchers calculate that the Navy would find itself short by as many as 600 aircraft in 1994.

The fact that we are not buying enough aircraft to replace those that are going out of the inventory must be creating one heck of a maintenance problem for you. Will the eventual procurement of the A-12 aircraft improve the situation, or will it merely slow the bleeding?

Answer. The procurement of the A-12, which will replace the A-6, will significantly improve overall naval aircraft maintenance. The A-6 Intruder, the venerable warhorse of the fleet, requires substantial maintenance man-hours per flight hour and spares support in order to meet current operational requirements. The A-12 will require significantly less maintenance man-hours per flight hour and spares support since it is based on a very supportable systems design and will incorporate all the reliability and maintainability improvements introduced by the F/A-18.

Question. In a December 2, 1988 memo from Navy Secretary William Ball to Deputy Secretary Taft, Mr. Ball indicated that it might be "20 years" before "the A-12 is fully developed and operational." How will the Navy manage the shortfall in aircraft if the A-12 won't be ready for 20 years and if we continue to buy current Navy aircraft at uneconomical rates?

Answer. The A-12 is in development now and will be operational in the mid-1990's. The current shortfall in medium attack aircraft will continue until the A-12 inventory grows and eventually overcomes the deficit. The projected shortfall in medium attack aircraft will be managed exactly as we are managing the existing shortfall today. We cross-deck aircraft from returning carriers to deploying carriers; we reduce the number of aircraft used in training in order to increase the number used in operational squadrons; and we extend the time between depot level maintenance periods. These management actions are necessary in order to guarantee fully equipped carrier squadrons are ready to meet our national commitments.

Question. As you manage the shortfall in the near term by cross-decking aircraft, doesn't this only exacerbate the problem by using up the service life of the aircraft faster?

Answer. In cases where specific Type/Model/Series (TMS) aircraft inventories do not meet requirements, Type Commanders (TYCOMs) are forced to cross-deck aircraft on an "as required" basis to meet deployment schedules and ensure deploying squadrons have a full complement of aircraft.

Cross-decking aircraft normally consumes aircraft service life at a faster rate than a normal turn around cycle, but it is considered a prudent and efficient management option for the following reasons:

1. Aircraft service life is comprised of numerous engineering limits and can not be equated to only total airframe flight hours. Service life is based on fatigue life associated with total flight hours, cumulative G loads, field landings, catapults, and arrested landings. While cross-decking aircraft, various service life limits are subjected to higher than normal consumption rates.
2. Each TYCOM carefully manages TACAIR/ASW CV aircraft and tracks each component of service life defined for each TMS aircraft. As service life limits start to get out of proportion due to both scheduled/unscheduled maintenance and deployment scheduling conflicts, cross-decking is used to balance service life limits within the TMS. An example is: Aircraft used in the RDT&E community do not accumulate most service life limits as readily as a fleet deployed aircraft. Therefore, when a fleet aircraft approaches a specific service life limit, it is prudent to exchange or "cross-deck" the aircraft to extend its retirement by delaying when it will reach a service life limit. This maintains a valuable Navy asset in the active inventory longer than normal by means of using "cross-decking" as a management tool.

As a management option, "cross-decking" can be used to balance service life limits and manage inventory shortfalls. When used to handle inventory shortfalls within a specific TMS for an extended period of time, service life limits may simultaneously cause large numbers of aircraft to need either replacing or service life extensions (SLEP). The Navy is aware of this problem and has effectively used its aircraft assets to the full extent possible in order to prioritize funding for SLEP, new, or remanufactured aircraft.

AIRCRAFT MAINTENANCE

Question. I would imagine that the Navy's game plan is going to drive up the Navy's O&M budget. Can you provide for us a yearly estimate of the cost to maintain the Navy's aircraft from 1989 through 1995?

Answer. Although there are numerous costs associated with aircraft maintenance, only the immedate and readily identifiable direct active and reserve depot costs as displayed in the President's Budget are shown. Projected costs for fiscal year 1995 are not known at this time.

[Dollars in millions]

Program	Fiscal year—					
	1989	1990	1991	1992	1993	1994
OMN: depot:						
Airframes	388.1	442.9	442.3	424.2	386.9	429.6
Engines	259.8	218.2	206.0	230.6	237.8	307.3
Components	63.8	65.9	66.0	66.1	65.7	70.2

[Dollars in millions]

Program	Fiscal year—					
	1989	1990	1991	1992	1993	1994
Mods	291.9	307.2	327.7	308.5	279.2	306.1
Support service	28.6	24.5	24.6	24.6	24.6	24.6
Subtotal	1032.2	1058.7	1066.6	1054.0	994.2	1137.8
OMNR depot	110.7	118.9	111.7	91.1	114.4	115.8
Total depot	1142.9	1177.6	1178.3	1145.1	1108.6	1253.6

[CLERK'S NOTE.—End of questions submitted by Mr. Miller. Questions submitted for the record and the answers thereto follow:]

FISCAL YEAR 1990 BUDGET AMENDMENTS

Question. The fiscal year 1990 budget request for Navy O&M is $26.4 billion, 30 percent of the Navy's budget request. This is a $1.5 billion (6 percent) increase over the fiscal year 1989 enacted level and represents real growth of approximately 2.6 percent.

The new Administration has proposed no real growth in the 1990 Defense budget. For O&M, Navy, this would mean a reduction of approximately $68.5 million.

What will be the effect of this policy on Navy O&M? Will readiness levels be reduced?

Answer. The Administration's proposal is being discussed in DOD. All programs are under review, but at this time no final decisions have been made. Every effort will be made to maintain essential direct readiness programs.

Question. Have you determined how you will apply the reductions?

Answer. Final decisions on Operation and Maintenance, Navy funding levels have not been determined.

Question. Has the Navy considered a reduction in the size of the force as a way to meet the proposed reductions?

Answer. All programs are under review including force level reductions. At this time, no decisions affecting force level have been finalized.

O&M AND GRAMM-RUDMAN-HOLLINGS

Question. If the federal deficit is greater than projected, DOD will experience a sequestration of funds in order to bring spending in line.

If the deficit is as high as $146.2 billion and the military personnel accounts are exempted, DOD could expect as great as a 19.3 percent across-the-board reduction. If the military personnel accounts are not exempted, there would be an 11.8 percent reduction.

We all know that this kind of reduction for O&M will be devastating. In your opinion, what would be the effect of a 19.3 percent—a $5 billion—reduction in the Navy's O&M budget?

Answer. I hesitate to predict the outcome of such a large hypothetical reduction. Obviously, the impact would be severe and affect all Operation and Maintenance programs, including fleet operating tempo.

Question. Based on this result, do you believe that the military personnel accounts should share in the sequestration to lessen the impact on the O&M account? (This would mean an 11.8 percent—$3 billion—O&M reduction).

Answer. The Department does not support the Military Personnel accounts "sharing" in any sequestration associated with Gramm-Rudman-Hollings. These accounts are entitlement intensive with limited flexibility, since the bulk of the appropriation is covered under various sections of U.S. Code.

Question. Would your O&M budget which has been reduced by $5 billion be capable of adequately supporting the Navy's current force structure?

Answer. Again, I hesitate to predict the outcome of a hypothetical situation. However, I believe the most sensible approach, in that case, would involve force structure reductions.

O&M REAL GROWTH AND THE FUTURE

Question. A recent CBO report stated that O&M and Military Personnel costs, also known as operation and support (O&S) costs, must experience at least a 2.3 percent real growth a year to support new equipment entering the force.

Additionally, CBO stated that there are three general approaches to hold down these costs: reduction of military forces, efficiencies, and acceptance of readiness reductions and risks.

Based on the CBO's remarks and the new administration's policy for no real growth, what is the future for Navy O&M?

Answer. The Navy does not agree with a Carte Blanche assessment that at least 2.3 percent real growth is required to support new equipment entering the force. The Navy has worked very hard to reduce O&S costs and has been quite successful. For example, the cost of Aviation Depot Level Repairables has been reduced an average of 32 percent since 1985; gas turbine ships are much more efficient than their steam ship predecessors and in fact cost about two thirds of older ships, even with greatly increased capability; the F/A-18 costs about two thirds of its F-4 predecessor. The President's fiscal year 1990/1991 Budget Submission in January provided the Department of the Navy with less than one percent per year real growth over the fiscal year 1990/1991 time frame. Even constrained to that level, our request for Operation and Maintenance, Navy provides sufficient funding to maintain the highest priority direct readiness programs. In this context, we believe that we will be able to continue to allocate sufficient funds to maintain these programs in the future.

Question. In your opinion, do you believe that the 1990 budget, as amended, will require the Navy to accept readiness reductions and risks?

Answer. I cannot prejudge the outcome of the discussions on the amendment to the fiscal year 1990 budget which are now ongoing. However, we will continue to work to maintain essential direct readiness programs.

Question. In your opinion, are there any new programs that could be implemented in 1990 to improve efficiencies and reduce O&S costs without seriously reducing readiness?

Answer. Over the past few years, we have implemented a great variety of programs which have resulted in substantial savings and increases in efficiency. For example, the average price of a part in the Navy supply system today is 37 percent less than it was in fiscal year 1985. We have instituted efficiencies in our industrial fund activities which are saving over $500 million annually. We have prioritized programs in the engineering and logistic support areas which have achieved great savings, albeit reductions which entail an added degree of risk.

We are continuing to seek opportunities to effect savings in every budgeted program, and we expect to continue to achieve these savings. However, we do not believe it is possible to attain savings of the magnitude we have achieved in the past. Future budget reductions to O&M will cause readiness reductions and risks.

Question. In addition to reducing military forces, would the Navy consider a reduction in the civilian work force?

Answer. The President's Budget submission does reflect a reduction of nearly 6,000 end strength in fiscal year 1990. These end strength reductions are based on budgeted changes in workload. When there are changes in budgeted workload in the future, we expect to make commensurate changes in personnel levels.

However, changes in personnel levels should be driven by changes in program, not the other way around. For example, it does not make sense to reduce the number of employees at naval shipyards or aviation depots and expect to repair the same number of ships and aircraft.

PERSIAN GULF OPERATIONS

Question. In fiscal year 1989, the Navy did not request funding for Persian Gulf operations. The Congress added $60 million to the budget to carry out these operations.

What is the current estimate for the total fiscal year 1989 current cost of operations in the Persian Gulf?

Answer. The actual costs incurred (obligated) through January 1989 total $40.678 million and includes repair of the USS *Samuel B. Roberts* and Host Nation Fuel support.

Question. Has there been a change in the mix of ships and has this affected the cost?

Answer. Yes, the Navy is continually evaluating the situation in the region and tailoring the force level (ship mix) to safely carry out US policy objectives. The force levels during the peak of escort operations ranged between 28–35 ships at a cost of $10–$12 million per month. Since the cessation of hostilities the force levels have been reduced to 6 combatants, 1 command ship, 1 tender and 3 minesweepers at a cost of $3–$4 million per month.

REPAIR OF THE U.S.S. "SAMUEL B. ROBERTS"

Question. In fiscal year 1989, the Congress provided $96.5 million for the repair of the U.S.S. *Samuel B. Roberts.*

Was needed replacement equipment purchased with the O&M funds or was it financed from the Other Procurement, Navy account?

Answer. No, replacement equipment was not purchased with O&M funds. The cost to restore the *Roberts* to battle ready condition is financed from the O&M,N appropriation. This includes installing replacement equipment which is drawn from inventory purchased with OPN funds. Replacing this equipment in the battle spares inventory is also an OPN cost.

OVERHAUL OF THE "U.S.S. ENTERPRISE"

Question. The U.S.S. *Enterprise* was built twenty seven years ago and is scheduled to begin a 32 month refueling/overhaul/SLEP in January of 1991. There has been some concern expressed as to the cost of the overhaul. Some congressional leaders have stated that the overhaul will cost approximately $2.5 billion and the Navy would be in better financial standing if it retired, instead of overhauled, the *Enterprise*.

What will be the estimated increase in the service life of the *Enterprise* when this overhaul is complete?

Answer. Refueling the U.S.S. *Enterprise* provides fuel for approximately twenty years of operations. The Overhaul will deliver a ship that can operate with normal depot maintenance until its next scheduled overhaul approximately 84 months later. It should be noted that the U.S.S. *Enterprise* will undergo a refueling overhaul, not a SLEP and that estimated cost is under $2 billion.

Question. Approximately $600 million in long-lead items have been purchased for the *Enterprise* overhaul. If the overhaul is cancelled, would these items be available for other non-nuclear overhauls? Is the Navy continuing to buy long-lead items in 1990 for the 1991 overhaul; if so, what are the 1990 procurement costs?

Answer. Through the end of fiscal year 1988, $386 million had been obligated in preparation for the fiscal year 1991 refueling and overhaul of the U.S.S. *Enterprise*. Of this amount, $258 million has been obligated in Other Procurement, Navy; $8 million of this amount was spent on arresting gear engines, which can be used for another overhaul should they not be used on the U.S.S. *Enterprise*. The remaining $250 million was spent on nuclear equipment and therefore could not be used on a non-nuclear overhaul.

In fiscal year 1990, the Navy has budgeted $15.3 million in OPN and $7.8 million in WPN to procure ship systems and warfighting improvement equipment for the U.S.S. *Enterprise* refueling overhaul.

REPLACEMENT OF CONTRACT EMPLOYEES WITH NAVY CIVILIANS

Question. A recent news article indicates that the Navy plans to reduce the number of service contracts and replace contract employees with over 2,300 civilian employees.

The Navy's effort is concentrated at the Naval Sea Systems Command (NAVSEA) and is aimed at cutting consultants from procurement positions and replacing them with civilians.

Is this effort in response to the recent investigation which points to the vulnerability of the Navy's procurement process?

Answer. We have proposed in the fiscal year 1990/1991 President's Budget Submission to hire approximately 238 civilian personnel in fiscal year 1989, an additional 737 in fiscal year 1990, and an additional 744 personnel in fiscal year 1991 for a total of 1,719 over three years. Further conversions are planned for subsequent years. We will convert contract services to in-house effort at no net increase in cost. These personnel will be employed by the Naval Sea Systems Command, the Naval Air Systems Command, the Space and Naval Warfare Systems Command, and by the Marine Corps Research, Development, and Acquisition Command.

These conversions are deemed necessary as a result of examinations by the Naval Investigative Service and the Navy Inspector General which showed that the level of contractor support in acquisition organizations represented an unacceptable risk to the integrity of the acquisition process. Manpower to perform basic governmental functions must be maintained in-house. Particularly sensitive functions are development of acquisition strategies, procurement requests, solicitations and source selection plans, preparation of Justification and Authorities and Determination and Findings, and conduct of proposal evaluations.

Question. Another part of the effort is to reduce Navy dependence on contract engineers by hiring more civilian engineers for various Navy programs, especially combat weapons design.

Considering the inability of the federal government to pay competitive wages for engineers, how does the Navy expect to be able to hire these engineers?

Answer. It is necessary to put this new hiring into context: it is not an increase over a zero base. We have been successfully recruiting highly qualified personnel with engineering and other skills for many years. Our hiring plans are phased to ensure that we do obtain high quality applicants.

Our studies indicate that the hiring plans are achievable. NAVSEA recently established a team which successfully restored manning levels, reduced by attrition, for our Weapon and Combat Systems Directorate by hiring 100 persons in 50 days. Personnel were brought in at entry and journeyman levels for their prospective positions. Fifty-six were non-engineering analysts and clerical personnel; 44 were engineers (37 entry level and seven full performance level engineers). This was a positive test of NAVSEA's ability to hire at a rate greater than normal attrition, and we are applying lessons learned to our future hiring plans.

USE OF UNOBLIGATED FUNDS FOR SHIP REPAIR

Question. In fiscal year 1982, Congress authorized the Navy to utilize unobligated, expired O&M funds for unplanned ship repair and overhaul work identified after the end of the year in which the ship entered overhaul. The legislation allows the reprogramming of expired O&M funds without approval from the Congress and extends the appropriation life until the unobligated funds move into the Merger ("M") Account.

The Committee's Surveys and Investigative staff had an opportunity to talk with Navy officials concerning the use of unobligated funds for ship repair and overhaul. The Navy officials were unable to identify the amount of expired funds used in prior years to finance unplanned new work.

Without a record of exactly how these expired funds are used, the Navy's funding flexibility could be abused by underestimating the cost of an overhaul at induction and then charging off cost overruns as new work.

Does the ability to use expired funds for overhaul and repair work allow the Navy to underestimate the cost of a ship overhaul, knowing that change orders will be funded with expired funds?

Answer. No, the ability to use expired funds does not allow us to underfund the cost of a ship overhaul because DoD policy requires the use of project orders to fund ship overhauls at Navy shipyards. Project order regulations required full funding of the work description at the time of issuance. There is one project order issued to a Naval shipyard per overhaul since the work package cannot be readily divided into discreet sections. Overhauls at private shipyards are authorized by contract and therefore must follow contracting rules and regulations. These facts alone prevent the situation described from occurring without violating DoD policies and regulations.

Question. If expired funds are used for new work, how would Congress know the actual costs of the overhaul?

Answer. The actual final cost of an overhaul is available on the departure report which is prepared upon completion of the overhaul and is a matter of public record.

Question. Does the policy for the use of expired funds for new work on ship repairs and overhauls extend to work performed at both public and private shipyards?

Answer. Yes.

PUBLIC/PRIVATE COMPETITION FOR AVIATION MAINTENANCE

Question. In fiscal year 1988, the Navy initiated a program to compete selected aviation depot maintenance workload between Navy Aviation Depots and private contractors. The primary goal of the program is to reduce maintenance costs through improved efficiencies.

One of the first competitions was for a F-14A overhaul contract. Even though there should be no differences in the work content of F-14A overhauls selected for the competition program and F-14A overhauls selected for the Navy depots, the budget indicates that more funds are requested for non-competitive overhauls than for overhauls slated for competition.

Since the F-14A overhaul work package is the same, despite competition, why is the Navy requesting $1.4 million for each of the 27 non-competition overhauls and $803,000 for each of the 20 competition overhauls?

Answer. The competition program is achieving the goal of reducing maintenance cost through improved efficiencies. The F-14A overhaul is a clear example. Reduced costs can be seen in successive depot maintenance airframe budget submissions: $1.670 million in the fiscal year 1986 actual column of the fiscal year 1988/1989 Biennial Budget, $1.524 million in the fiscal year 1989 column of the fiscal year 1988/1989 Biennial Budget in January 1987, $1.458 million in the fiscal year 1989 column of the fiscal year 1988/1989 Amended Biennial Budget in February 1988. The two prices found in the fiscal year 1990/1991 budget exhibit were caused by our inexperience in displaying NAVAVNDEPOT "contract" awards.

Since we are performing the same work on competition and non-competition F-14A airframes, the costs will be the same for both. Guidance for displaying the competitive Fixed Price overhauls did not permit showing efficiency gains on non-competitive work as a result of competition by the time the budget was locked in. Additionally, the display for the "contract" price required a known basic cost and didn't provide for within scope emergent requirements. This table summarizes the situation:

	Million
Non-Competition Display:	
SDLM	$1.445
Efficiency	(0.210)
Current estimate	1.235
Competition Display:	
Base contract	0.804
Emergent requirements	0.431
Current estimate	1.235

Therefore, based on our current estimates, the budget is underfunded for total F-14A overhauls by $2.955 million as shown below:

	Million
Fiscal year 1990/1991 Budget:	
27 A/C at $1.445	$39.023
20 A/C at $0.804	16.067
Total	55.090
Current estimate:	
47 A/C at $1.235	58.045
Total	58.045

We expect the first completion of a competition F-14A overhaul this June. These are our cost estimates to date. Emergent requirements may increase our estimates. For example, we have emergent maintenance problems in the boron tail assemblies which must be purchased and the material charge will be added to the contract cost, as would be done with a commercial contractor. Thus, for specific aircraft, the unit cost may increase to $1.345 million.

At this worst case, savings realized since fiscal year 1986 would be, $325,000 or 20 percent of the fiscal year 1986 base cost.

[CLERK'S NOTE.—The Department was asked to provide a more responsive answer, but has not done so in time to be printed in this hearing volume.]

Question. Navy Depot officials at Norfolk indicate that the most recently completed, non-competition F-14A overhaul averaged $1.1 million. If this is so, why is the Navy budgeting $1.4 million for these overhauls?

Answer. The latest costs derived from efficiencies in maintenance have averaged $1.235 million across the two depots performing non-competition overhauls. There are differences in costs at these plants. The cost of labor is higher on the west coast. The number you referred to represents a few actual non-competition completions at the east coast site, not the average.

There are two methods for the development of cost estimates. The first, for non-competition overhauls, is basically the average or norm for similar work performed in the recent past. This method allows for performance of work on the average airframe and is a fixed price estimate. This method has drawbacks, however, since it is about 30 months from the time of estimate development to the execution year. Therefore, budget estimates lag actual execution year experiences, including, in this case, cost efficiencies realized since estimates were developed.

The second method is a new one for us as previously mentioned. The Naval Aviation Depots responded to a Request for Proposal and bid the overhaul in compliance with this contractual document. The overhaul was awarded to our NAVAVNDEPOTs a few months after the bid was submitted, avoiding delays in the budget process.

We are working to eliminate inconsistencies in the budget display.

Question. The F-14A competition contract calls for the annual induction of 20 aircraft with an option for five additional aircraft each year. Does the fiscal year 1990 budget include these five additional aircraft as competition maintenance?

Answer. The five aircraft are not identified as competition maintenance. The number of aircraft projected for overhaul is a product of the Navy's requirement model, known as ASPA (Aircraft Service Period Adjustment). All known or anticipated fiscal year 1990 requirements are displayed in the current budget. The award of the F-14A overhaul to the NAVAVNDEPOTs required separate line item accounting. Thus, 20 for the basic contract are displayed under "F-14A competition" with the balance displayed under "F-14A NIF." If actual fleet requirements increase over the quantity currently budgeted, the "Contract" option may be exercised.

The NAVAVNDEPOTs are performing similar work on each "type" of F-14A overhaul. The same number of total overhauls will be performed for the same cost.

MONITORING COMPETITION AWARDS TO NAVY DEPOTS

Question. Now that the Navy Aviation Depots have been successful in competing for work under public/private competition for the F-14A overhaul and the P-3C avionics update, the Navy is obligated to ensure that the "contract" is properly executed. To ensure compliance with contractual requirements, the Navy has established a number of controls not normally required for regular workload assigned to the depots.

These controls have increased the number of people at the depots to conduct on-site reviews. However, there is concern that this is not an independent review of the depot's work. Additionally, there is concern that the depot accounting systems cannot properly handle the reporting requirements mandated by the contract.

All parties with contract oversight functions are currently within NAVAIR. In similar competition programs for ship overhauls, the Secretary of the Navy established the Naval Audit Service as an independent third party to certify contract performance. Would a similar arrangement be beneficial in overseeing the depots' contracts? If not, why not?

Answer. The Naval Audit Service will perform the same oversight function for the Naval Aviation Depots as they do for the Naval Shipyards.

Question. Since the competition effort adds reporting and acounting requirements not normally encountered in depot operations, what has the Navy done to ensure that the information systems currently in place can accurately handle reports showing work in process, work completed, material charges, etc.?

Answer. The reporting and accounting requirements levied upon the Naval Aviation Depots for competition workload are not readily accommodated by the current workload control system used by the Naval Aviation Depots. The NAVAIR Industrial Financial Management System (NIFMS) used to track and report Naval Aviation Depot workload and financial information is being modified to accommodate the reporting requirements which will be levied upon Naval Aviation Depots that bid successfully during public/private competition. These reporting requirements are the same as required of private offeror of depot maintenance services. The changes to the NIFMS will be implemented by October 1989. In the interim, cost and schedule status reporting will be provided to NAVAIR based on data and information collected by the program management representative on-site at the Naval Aviation Depot through the procuring contracting officer at the Naval Aviation Depot Operations Center. No additional information is required above and beyond what is already available to support NAVAIR management decisions on competition.

Question. If profits and losses are combined for both competition and non-competition workload, profits from one type of workload could be used to offset losses in other types of workload. What controls are in place to ensure that profits and losses for the non-competition and competition aircraft are accounted for separately.

Answer. Naval Air Systems Command letter 7000 ser AIR-8021A/0457 of 10 Aug 1987 states that "gains incurred during execution of the work (competitive work) will be retained and separately identified within a distinct accumulated operating results (AOR) account."

NAVCOMPT instructions 7600.29 states "during execution, the costs and revenues incurred as a result of executing this workload will be accounted for and reported separately."

AIRFRAME AND ENGINE OVERHAUL ESTIMATES

Question. Since fiscal year 1986, the Navy completed fewer airframe overhauls than it had budgeted to complete. Conversely, since fiscal year 1986, the Navy completed more engine overhauls than it had budgeted to complete.

Based on this information, how accurate are the Navy's estimates to overhaul 730 airframes in fiscal year 1989 and 645 airframes in fiscal year 1990?

Answer. The 730 airframes mentioned for fiscal year 1989 were the funded units identified in the fiscal year 1988/1989 Biennial Budget submission from February 1987 which the Congress did not use for appropriation purposes. The fiscal year 1988/1989 Amended Biennial Budget submission from February 1988 identified only 647 units because of reductions to the Airframe Rework program to fund higher priority workload that generated in the intervening one-year period. The current fiscal year 1990/1991 President's Biennial Budget identifies 591 funded units due to a further funding reduction of $69 million to fund modification installations that are urgently required. The reduced units have not substantially impacted backlog because the requirements also reduced from 981 aircraft to 633 aircraft in fiscal year 1989.

The Navy's forecast of aircraft reworks was based upon predicted aircraft requiring rework as a result of material condition inspections under the Aircraft Service Period Adjustment (ASPA) program. During the two-year period from January 1987 to now, actual inspections resulted in more aircraft being deferred from rework than had originally been predicted. As a result, the forecasting process has been extensively revised to better reflect current data concerning the latest results of the ASPA inspection process so we believe the trend toward fewer aircraft actually reworked compared to those predicted will not continue.

Question. For fiscal years 1986 through 1988, the unit cost for engine overhaul and repair decreased, yet the budget estimates for the unit cost for fiscal years 1989 and 1990 show the unit cost increasing. Given that various depots are initiating programs to lower and control material costs, why is the unit cost for engine overhaul and repair increasing by 6.5 percent from 1989 to 1990?

Answer. Although overall engine rework costs per unit increase by 12.9% in fiscal year 1989 over fiscal year 1988, as explained below, overall engine rework costs per unit actually decrease by 3.4% in fiscal year 1990 from fiscal year 1989; they do not increase by 6.5%.

During the fiscal year 1989 amended budget submission (ABS), the fiscal year 1989 unit material costs were escalated by +12.5% to reflect inclusion of aviation depot level repairables (AVDLR) component costs.

Additionally, the commercial/interservice engine rework costs were updated to reflect actual cost plus escalation guidance.

Most importantly, fiscal year 1989/1990 includes a mix of both high cost major repair and major repair conversions while the fiscal year 1986/1987 unit costs reflect a greater number of regular repairs which cost less. Aviation Intermediate Maintenance Departments around the Navy are actively encouraged to repair as many engines as possible using AVDLR components whenever possible. One result is that engines which in the past may have been sent to a depot, are now being repaired on site. Those engines which are sent to depots display a need for more complex, major overhauls. This trend toward a depot repair mix of mostly major reworks is expected to continue.

Also, safety and fatigue repair impact unit cost. Some of the major repairs involve replacing J52 low cycle fatigue parts to preclude catastrophic failure and incorporating safety changes in F-404 engines.

Question. What is the Navy doing to make its quantity and unit cost estimates for airframe and engine overhauls more accurate?

Answer. The Navy's forecast of aircraft reworks was based upon predicted aircraft requiring rework as a result of material condition inspections under the Aircraft Service Period Adjustment (ASPA) program. Actual inspections resulted in more aircraft being deferred from rework than had originally been predicted. However, many of the aircraft which were not deferred and required rework were high technology, more expensive aircraft than had originally been predicted. The forecasting process has been extensively revised to better reflect current data concerning the latest results of the ASPA inspection process. The trend toward fewer aircraft actually reworked compared to those predicted, therefore, is not expected to continue.

In the area of engine requirements forecasting, we have an automated engine rework requirements system program for formulating rework requirements. In addition, an upgrade to the model that will incorporate Chief of Naval Operations (CNO) ready for issue goals has recently been developed to improve requirement forecasting.

The mean time between repairs (return rates) utilized for forecasting requirements are kept current by conducting a return rate analysis review at the end of each fiscal year. The historical data is then evaluated and a projected return rate applied to each type, model, and series for future requirements.

Finally, automation of the CNO originated Aircraft Program Data File which was accomplished in 1987, has reduced the manual input of CNO designated flying hours and eliminated imput errors.

In order to improve unit cost forecasting, in January 1989, a performance standards program subcommittee was formed to establish objectives, responsibilities, and transition plans for a modern and dynamic program to replace the Performance Standards Program (PSP). With the advent of Total Quality Management (TQM) as a means of institutionalizing productivity gains, consideration must now be given for incorporation of the various statistical process control techniques as an instrinsic part of the PSP.

Additionally, Naval Air Systems Command is in the process of issuing a workload standard instruction which will better define the process for establishing engine and aircraft workload standards.

UNNEEDED SUPPLIES

Question. A significant part of the O&M, Navy budget provides funds to receive, store, issue, control, maintain, and re-warehouse inventory. The Committee's Surveys and Investigative staff found that at two Naval Supply Centers, a large percentage of the inventory had no demands for at least two years. At Pearl Harbor, the amount of inventory in question totalled $87 million and at Oakland, it totalled $1.1 billion.

As of September 30, 1988, how many line items did the Navy have in its depots for which there had been no demand for at least two years? What is the total value of those items?

Answer. There are two distinct categories of secondary items managed in the Department of the Navy Stock Fund. Consumables material which are low cost non-repairable type items which are normally consumed when used and repairable items which can be repaired and returned to a totally operational status at less cost than the acquisition of a new one. These two categories of items are managed and monitored somewhat differently, and therefore the data provided in response to this question is in recognition of these differences.

For consumable material, the criteria used by the Navy to assess its requirement is the number of demands (request for issue) registered for the individual line item. For those items which receive one or more demands in a four quarter period (one year) are defined by Navy as being demand based, while those which do not record demands with that frequently are non-demand based. As the Navy does not collect data or assess its inventory on the basis of no demands for a two year period of time, the nearest correlation to that is the breakdown in inventory on the basis of demand versus non-demand based stocks.

Repairables are not managed with the same inventory program as consumables, and comparable figures were not available on a site basis. The Navy centrally monitors the demand on repairable items rather than on a site basis, recording demands from all sources for these items. The following summary reflects the breakout of demand based verses non-demand as recorded at the Navy's two Inventory Control Points.

MATERIAL STATISTICS

	Number L/I	Value
Consumables:		
Demand based	734,544	$946,500,000
Non-demand based	1,499,409	1,598,300,000
Repairables:		
Demand based	71,000	13,703,000,000
Non-demand based	82,000	4,500,000,000

The non-demand based material cited above includes $47.2 million in Prepositioned War Reserve Material Stock (PWRMS) and an additional $33.9 million in retail inventory Numeric Stockage Objectives established to ensure that a minimum level of inventory will be on hand at all times.

Question. What is the cost (direct and indirect) involved in maintaining stock which has had no demands in 2 years?

Answer. The accounting system used by the Navy does not associate costs directly with the segment of inventory which has not recorded a demand in two years. Expenses are accumulated on the total cost to manage the inventory. Current practice allocates funds to physical distribution cost centers at the Navy Supply Centers based upon Movement Units for material. Movement units are derived primarily from the number of receipts and issues processed. It has been found that the allocation of costs on this basis provided an equitable distribution of funds.

By definition, insurance material has relatively few issues and receipts. Workload statistics do not keep track of issues and receipts for non-demand based material. However, many of the items do have forecasted demand greater than zero. If this demand projection is used, then total annual demand is:

[Dollars in millions]

Material category	Value	Percent
Demand based material	$1,036.1	93.28
Non-demand based material	74.6	6.72
Total	1,110.7	100.0

Based on the fiscal year 1988 O&M,N Budget for the supply centers and the logic used in the Movement Unit resourcing system, the "cost" of maintaining non-demand based material would have been approximately $16 million.

The "benefit" of maintaining this material is equally hard to quantify. However, the $74.6 million in projected demand for these items represents $4.66 in sales for every dollar spent to maintain the material. If the policy had been to dispose of all non-demand based material, then only buy back what is actually ordered, it would have resulted in a net "cost" to the Navy of over $58 million (assuming the material could be repurchased for the price it was being carried at), increased costs throughout the system for expediting material, premium transportation, and the associated work stoppages or readiness degradation caused by the procurement leadtime.

Question. How often does the Navy review its idle inventory, and what criteria does it use to decide whether or not to retain a particular line item?

Answer. Reviews are done with a different periodicity at each inventory echelon.

Consumer inventories are reviewed every two to three years when new allowance lists are recalculated. This is an extensive process that involves verification of the current configuration of the weapon systems to be supported and the degree of maintenance capability, then identification of the repair parts required to support it. Once this process is complete, the new allowances are compared to the list and excess material is returned to a supply system for further processing.

In addition to the allowance lists, consumers are authorized to increase stock levels for items which have sufficient demand to justify those levels for sustainability purposes. The sustainability, or endurance period, is generally ninety days. The demand for these items is reviewed quarterly and stock levels adjusted as required.

Intermediate inventories are for the most part automated under the "Uniform Automated Data Processing System—Stock Point" inventory management system, which uses an application known as Variable Operating and Safety Level (VOSL) to establish demand-based requirements. Inventory levels are adjusted quarterly, and any item that has had no demand in the past year will be dropped from computation of levels under VOSL.

Non-demand based items may be stocked at the Retail level for three other reasons, as allowed in DoD Directive 4140.44 "Supply Management of the Intermediate and Consumer Levels of Inventory". These reasons are:

a. Insurance—items with no anticipated demand, but which are essential items.

b. Numeric—items with anticipated demand below normal range stocking rules, but which would have a significant readiness impact if not available.

c. Provisioning—items which are positioned at a site in advance of anticipated demand. These items may only remain in a "protected" status for a limited time, normally not longer than two years, until the demand base takes over.

Question. What method does the Navy use to control items that have very little annual demand?

Answer. There are two separate aspects to this question.

1. What does the Navy do to prevent items with very little demand from being brought in the first place?

The DoD Provisioning process limits investment in spares before actual demand has been established. However, investment is weighed against the need to "meet end item readiness goals by ensuring the timely availability of initial stocks of support items at using organizations and at maintenance and supply activities to sustain the programmed operation of end items until normal replenishment is effected. This balance is difficult to find, particularly when reliability and failure data may be based on engineering estimates and laboratory tests instead of actual fielded experience. In addition, lengthy lead times on many items require these factors to be established early in the process, possibly before there have been any live tests of the system which can be used to validate them.

2. Once items have been established in the inventory and bought, what does the Navy do to limit inventory growth?

Replenishment items are bought based on demand forecasts and for future retail outfittings. Items without demand will be included in retail allowances only if their essentiality and anticipated demand (even if very low) qualify them for stocking under very strict criteria. Configuration changes made during the life of a weapons system require changes to allowance lists in order for readiness levels to be maintained. Items are removed from the allowance lists when they are no longer applicable. When returned to a supply system, they are added to stock and used to offset an existing or future requirement for that item. If there is not previous demand for the item, it will be reported to its Integrated Material Manager for appropriate action.

These requirements are reviewed at least once a year as part of the stratification process and are scrutinized when the support program that established them is reassessed, normally every two years. They are established on the stock point records using a Numeric Stockage Objective (NSO). When the NSO is no longer required, the item is reviewed for redistribution or disposal.

Items under the control of a Navy Inventory Control Point (ICP) are reported as available for redistribution. Since there is central visibility of the asset at the ICP, there is no physical redistribution until a need is identified at another location.

Items with a Prepositioned War Reserve Material Requirement (PWRMR) are retained.

Items under the management of another service or DLA are offered to the Inventory Manager as a return. Predicated on the Inventory Manager's decision, the Navy would return the material if credit was to be granted, may return it without credit if warehouse crowding or other circumstances dictate this being the prudent action, continue to stock the item in anticipation that could offset a future requirement, or dispose of it if it is not desired.

Wholesale material is reviewed for disposal semiannually as part of the inventory stratification process. Criteria for retention of items withot demand are as follows:

If the item has been in the supply system less than 7 years, it is retained because the demand may not yet have materialized. This is especially pertinent for items required for depot maintenance of a weapon system. Extending operating cycles between overhauls have stretched out the demand for these items so that many will not become demand based until well after the system has been fielded.

If the item has a Preposition War Reserve requirement, it is retained. These requirements are also reviewed semiannually as part of the stratification process.

Essential items are assigned a retention limit of approximately 20 years of forecasted demand, and non-essential items are assigned a retention limit of seven years forecasted demand. Any item applicable to a current weapon system will have a minimum retention limit of five units On-hand stock in excess of these limits will be offered first to FMS customers, then will be processed for disposal.

EXCESS NAVY DEPOT MATERIAL

Question. The Naval Audit Service has reported that the Navy Aviation Depots often fail to cancel outstanding material orders for aircraft that have completed their overhaul. This causes an increase in material inventories that may be in excess to needs.

For example, in a June 1988 report on the F-14 overhaul program at the Norfolk depot, the Naval Audit Service reported that $6.6 million in material orders remained outstanding for 10 aircraft that had already been repaired and returned to the fleet. The report indicated that by not canceling these orders, excess inventories were accumulating, driving up overall material costs.

What is the current amount of outstanding material orders at the Navy Aviation Depots for aircraft and engines that have completed the repair cycle?

Answer. The dollar value of outstanding material orders at depots for repairs that are completed at any given time is not readily available. Under the Navy Industrial Material Management System (NIMMS), the outstanding material requisition listing flags such situations, but does not run by dollar amount. For the month of March, 521 out of approximately 12,000 requisitions were so marked for manual review at one large east coast depot. These have been either redirected to a requiring end item or canceled.

Question. What is the Navy's policy for canceling outstanding material orders after an aircraft or engine has been completed?

Answer. It is Navy's policy to actively pursue the cancellation of outstanding material on completed jobs. Under the recently implemented Navy Industrial Material Management System (NIMMS), the depots have an automated method to identify outstanding requisitions on completed repairs. They are flagged for manual review. Those requisitions are either cancelled or reassigned to other valid open jobs where back robbing may have occurred or where delivery dates can be improved.

Question. What is the dollar value of excess inventories that have accumulated because outstanding material orders for completed aircraft were not cancelled?

Answer. As previously noted, the dollar value of outstanding material orders at depots for repairs that are completed at any given time is not readily available. Under NIMMS, the outstanding material requisition listing flags such situations, but does not run by dollar amount. For the month of March, 521 out of approximately 12,000 requisitions were marked for manual review at one large east coast depot. These have been either redirected to a requiring end item or cancelled.

Outstanding material orders for completed aircraft generally are still required to fill a hole in pipeline aircraft created by "backrobbing". "Backrobbing" is inefficient but a necessary action to complete an end item when procurement or diversion of parts doesn't satisfy the immediate need.

Our management information systems, financial and material, do not handle this situation automatically. When the material does arrive, an unmatched situation exists when the end item job number has been closed to a financially completed status. A material specialist must then investigate, determine if a backrob situation occurred, and assign the required material to the new requiring end item.

INDUSTRIAL FUNDS

Question. In fiscal year 1989, the Navy is planning to transfer $472.3 million from O&M to the Industrial Fund to offset losses in the Fund. In fiscal 1990, the Navy is budgeting a passthrough of $450 million from O&M into the Fund to offset losses. In fiscal year 1991, the Navy is again budgeting a passthrough of $638.9 million. This is a total loss of almost $1.6 billion from the O&M accounts to offset losses in the Industrial Fund. What would be the effect on the Industrial Fund if the passthrough did not occur in 1990? What would be the effect if the passthroughs were stretched from 1990 through 1992 with $390 million passed through each year?

Answer. Currently, the fund has a negative operational cash balance, and the yearend accumulated operating results are estimated to be a negative $1.04 billion. Extraordinary actions are presently being taken to keep a total positive cash balance. The fiscal year 1990 passthrough is absolutely needed to maintain solvency. If the passthrough is not provided, the Department would have to cancel program to replace the passthrough.

Question. Which O&M account(s) is the source of the FY 1989 and FY 1990 passthrough?

Answer. The source of the fiscal year 1989 and fiscal year 1990 passthrough is: the Operation and Maintenance, Navy Appropriations; Activity Group—Industrial Fund and Stock Fund Support;

Budget Activity 7—Central Supply and Maintenance under the CNO claimancy.

Question. In the case of passthroughs, only the O&M account is affected. If the rates are increased, all customers, including RDT&E and Procurement, are affected. By using passthroughs, is the Navy allowing the O&M accounts to fund the total effect of operating losses when all customers should be equally sharing the pain?

Answer. While it is true that adjusting rates would spread the impact of the passthrough to all customers, the end results would be essentially the same whether we centrally budget a passthrough in O&M or if we adjust rates. The vast majority of the prior year losses being covered by the fiscal year 1990 passthrough is at activities which are primarily financed by the O&M appropriations. Accordingly, the only difference to the O&M budget would be the spread of the dollars within the appropriation. In the case of passthroughs, it is easily seen in one O&M line, whereas increasing rates would spread the same costs throughout the appropriation. Overall, the Navy believes that it is much better to centrally finance passthroughs in the O&M appropriation rather than making the very significant rate adjustments that would be required to cover the losses through rates. In addition, it should be noted that the prior year industrial fund transfers were all to the O&M appropriation.

Question. Is the Navy subsidizing the industrially funded activities and their customers by budgeting for passthroughs instead of raising the rates?

Answer. No. Industrial fund costs and the customers' budgets are balanced with each other at budget submission. Accordingly, the passthroughs which finance the net impact of prior year losses does not represent a subsidy for the budget years workload. Adjusting rates from one budget year to the next has no more impact on the customers' programs than using a passthrough. These programs are funded to the level required to pay the industrial fund rates. If industrial rates were adjusted instead of using the passthrough, then the customer accounts would be adjusted in order to purchases the respective budgeted program. In the budget formulation, sufficient funds have been consolidated from all sources in order to provide the passthrough.

REAL PROPERTY MAINTENANCE

Question. The fiscal year 1990 budget request includes a $715 million request for real property maintenance funding, a 6 percent decrease from the 1989 funding. The Navy is anticipating a 20 percent increase in the backlog, anticipating a $1.8 billion backlog in 1990. Since 1984, the funding for the Navy's real property maintenance requirements has remained level while the backlog has increased by more than 100 percent.

What is the reason for the increasing level of real property maintenance backlogs?

Answer. The increasing level of real property maintenance backlogs is caused primarily by reductions in the level of real property maintenance funding resulting from decisions to maintain ship optempo and flying hour estimates to maintain our ability to meet national commitments. They are also caused by the increasing age and complexity of the Navy shore establishment. The average age of Navy facilities is over 40 years and increased use of things such as temperature and humidity controls, sophisticated trainers, and energy monitoring systems has increased their complexity.

Question. What are the long term and short term effects of carrying such a large amount of backlog maintenance each year?

Answer. A large maintenance backlog requires that available funds be utilized to do numerous temporary repairs to keep facilities functioning. This prevents funding of major projects that accomplish complete renovation and extend the life of facilities. Some short term effects of maintenance backlogs include the general deterioration of facility conditions in which people live and work, which in turn result in decreased morale and loss of productivity. Some deficiencies within the maintenance backlog make it more difficult for people to perform their mission. If deteriorated conditions are allowed to go uncorrected for too long, additional deterioration will occur, causing the cost of repairs as well as the maintenance backlog to grow.

Question. Does the Navy verify the backlogs each year and do these verifications include a review of installations on the base closure list?

Answer. The Navy verifies the backlog each year through a process called the Annual Inspection Summary (AIS). This is a program of continuous maintenance inspections at the activity level. The results of these inspections are carefully reviewed at the major claimant level and the latest completed AIS becomes the basis for the maintenance backlog projected for the budget years. No major repair work is being done on facilities included on the base closure list.

GOVERNMENT-FURNISHED MATERIEL

Question. A June 1988 General Accounting Office (GAO) report stated that the Navy's control over government furnished materiel (GFM) needed improvement. The GAO found that the Navy, among other things:

Routinely provided GFM to its contractors without adequate justification, even though government policy requires contractors to provide their own materiel unless otherwise justified.

Did not have adequate management and control system to control GFM provided to contractors.

Had not fully implemented DoD or Navy policies for the use of GFM.

Had not met DoD financial accounting requirements.

This GAO report and recommendations were made available to the Navy in June of 1988. What has the Navy done to implement the GAO recommendations?

Answer. In response to the audit, the Navy has created a Flag Level Steering Group (FLSG) to develop, direct and oversee the implementation of actions to correct deficiencies of GFM management. The FLSG is chaired by the Deputy Chief and has taken the following actions:

Identified total scope of the problem, defined the need for a GFM Management System and assessed existing Navy programs and procedures.

Identified that approximately one third of Navy GFM is managed to the standards stipulated in GAO audit. This being material furnished to support work for the Nuclear Reactors and the Fleet Ballistic Missile programs.

Determined the ADP systems requirements to provide the management controls, gain visibility, analyzing contractual requirements and forecasting potential excess quantities.

Directed the acceleration of approved GFM ADOP systems.

In addition, the FLSG is also developing Secretary of the Navy (SECNAV) policy and Chief of Naval Operations implementing directives regarding management of GFM.

Question. What was the total dollar value of the GFM provided to contractors in fiscal year 1988? What is the anticipated value of GFM to be provided to contractors in fiscal year 1990?

Answer. The dollar value of GFM provided to contractors in fiscal year 1988 was $2.1 billion. The anticipated values of GFM to be provided in fiscal year 1990 is $1.75 billion.

Question. Will new GFM policies be in effect for fiscal year 1990, and will this have an impact on the budgeted level of GFM?

Answer. GFM policies are being developed which cover the entire spectrum of GFM management and the implementation of the Management Control Authority (MCA) funciton. Actions called for will provide Navy visibility of GFM material and control of the process whereby contractors order material from the supply system. These policies will be in place by the end of fiscal year 1989. Implementation of GFM management systems has already begun, and Navy expects to complete the implementation by fiscal year 1992. Once GFM is under the control of these systems and visibility attained, better utilization of all material can be achieved throughout the Navy. Further, with the MCA function in place, Navy can limit contractor access to the supply system and lessen contractor requests for unneeded material.

SHIPYARD/WEAPON STATIONS INDUSTRIAL FUND RATES

Question. The report which accompanies the fiscal year 1989 DoD Appropriations Act, directs the Navy to ensure that the industrial fund rates for Navy shipyards and weapons stations accurately reflect all costs, including wartime mobilization costs. Does the fiscal year 1990 budget request reflect the Committee's direction?

Answer. The Industrial Fund rates reflect all costs with the exception of Un/Under Utilized Plant Capacity (UPC). All of the Industrial Funds were directed by OASD(C) to keep UPC out of the Industrial Fund rates. It is believed that inclusion of UPC costs in rates results in the customers being charged for costs that are not related with the product.

Question. If not, what is the total O&M subsidy to the Navy weapons stations and shipyards in fiscal year 1990?

Answer. The dollar value for UPC funding is:

Fiscal year 1990:	*Millions*
Shipyards	$5.4
Ordnance	100.5
Total	105.9

TRANSFER OF LINE ITEM MANAGEMENT TO DLA

Question. When the Navy is faced with O&M budget reductions and constraints, it often reviews the number of items which it manages. The result can be that items, mostly consumable items, are transferred to the Defense Logistics Agency. In fiscal years 1988 and 1989, did the Navy transfer the management of any items to DLA?

Answer. In fiscal year 1988, Navy transferred 2,196 items to DLA and anticipates transferring about that same number in fiscal year 1989. These transfers are being made under DoD's policy to centralize wholesale management of "non-unique" items at DLA.

Question. If so, did you experience a decrease in supply operations workload and funding?

Answer. Navy did not experience any appreciable decrease in supply operations workload and no decrease in funding because of these transfers to DLA. The number of line items transferred in fiscal year 1988 constituted less than 0.4% the total number of items managed by the Department of the Navy Stock Fund. The impact of these transfers was very small and was largely offset by the transfer of 552 line items from DLA to Navy management.

Question. Are you planning any such transfers in 1990, and if so, is this reflected in your budget request?

Answer. Navy and DLA are currently discussing the potential for transferring some 40,000 line items to DLA. It is envisioned that, if terms and conditions can be agreed to, 4,000 line items per month would be transferred commencing sometime in fiscal year 1989 and completing in fiscal year 1990. Navy has identified some 50,000 candidate items for transfer and are screening its inventory of others. These transfers, if they occur, will not affect our budget request. The candidates are "slow/non-movers" with very low demand rates. It is estimated that, at most, only about 15 man years would be saved at the Navy ICPs if this initiative came to fruition.

SUPPLY OPERATIONS

Question. They Navy's fiscal year 1990 budget request for supply operations is $1.1 billion. This includes $386 million for the depots, $228 million for inventory control points, and $464 million for procurement operations. This is a 10 percent increase over the fiscal year 1989 level.

What is causing the increase in the cost of supply operations?

Answer. As shown below, the Navy's budget request for supply operations increases by only .7 percent in fiscal year 1990 in real terms over the fiscal year 1989 level.

[Dollars in millions]

		Percent
Fiscal year 1989 current estimate	$978.7	1
Pricing	29.2	3.0

[Dollars in millions]

		Percent
Functional transfers	39.9	4.1
Conversion of CSS to in-house	23.1	2.4
Real program growth	7.6	0.7
Fiscal year 1990 budget request	1,078.5	

Of the $99.8 million increase in funding, $29.2 million is required to fund pricing adjustments for civilian pay raises, stock and industrial fund rates, and commercial inflation; $39.9 million reflects the net amount of funding which has been functionally transferred into and out of supply operations. This amount includes the transfer of $40.9 million to directly fund efforts at the Naval Supply Centers; Inventory Control Points; and Supervisor of Shipbuilding, Conversion, and Repair (SUPSHIPS) Offices which were previously being financed reimbursably. These transfers do not represent any increase in efforts from that performed in previous years. Finally, $23.1 million represents the transfer of resources from other appropriations and accounts to reflect the conversion of contracted advisory and assistance services to in-house performance to reduce the risk of compromise to the acquisition procurement process. Again, this does not represent any increase in workload over previous years; it merely changes who will perform the workload.

Real program growth of $7.6 million includes increased funding to continue supply system ADP modernization through Stock Point ADP Replacement (SPAR); to establish the supply support infrastructure required to support the Strategic Homeporting Plan; and for an additional 80 workyears for the receipt, segregation, storage and issue (RSS&I) of ammunition required to respond to the fleet's tempo of operations forecast. These increases are offset by savings from Commercial Activities Program studies and increased automation, and by reductions in funding for Project BOSS (Buy our Spares Smart).

Question. Is the Navy buying more items? If so, please provide the increase from 1989 to 1990 by item/commodity.

Answer. The Department of the Navy Stock Fund (DONSF) expects to make the same relative number of purchases in fiscal year 1990 as it plans to effect in fiscal year 1989.

While there is a relative correlation between the number of procurement actions executed and supply operations cost, it is not the strongest or the most direct. The number of issues and receipts, material movement units, processed by the Navy Supply Centers provide a much more accurate relationship and is the methodology used by the Navy to develop its cost basis for supply operations. This workload factor has been stable over time and is projected to rise less than 1% in fiscal year 1990 as depicted in the following table.

Movement Units

Fiscal year:	
1988	13,942,000
1989	13,673,000
1990	13,759,000

Question. How does the Navy categorize its items—managed items or sales items? Please provide the number of line items managed by category for fiscal years 1985-1989.

Answer. Within the Department of the Navy Stock Fund's (DONSF) inventory, "managed" items would be those for which the Navy has overall Inventory Material Management responsibilities, where as material obtained from the Defense Logistics Agency (DLA) and the General Services Administration (GSA), for which the Navy performs no inventory management function, would represent "sales" items.

The following display provides a break down of DONSF "managed" items by category/commodity at the end of fiscal years 1985 through 1988. Fiscal year 1989 data is not available at this time.

Material category	Fiscal year—			
	1985	1986	1987	1988
Ship's consumables	265,723	269,813	264,486	264,229
Pubs and forms	15,582	15,385	15,610	14,958
Aviation consumables	167,544	176,191	172,176	173,230
Ship's repairables	78,074	86,343	91,797	96,315
Aviation repairables	54,904	59,896	57,895	59,575
Total	581,827	607,628	601,964	608,307

Navy also manages many line items within the appropriated accounts, e.g., ammunition and interim spares. These items are not DONSF financed and are not included in the above figures.

Question. How do changes such as a reduction in Navy stock fund sales, reduction in steaming hours, or the transfer of items to DLA, affect the supply operations workload and funding?

Answer. There is not a one for one correlation between supply operations workload and funding to changes in Navy stock fund sales, reductions in steaming hours, or the transfer of items to DLA.

Since reductions in steaming hours are generally thought to lead to reduced stock fund sales, and correspondingly to a reduction in supply operations workload, these two elements will be addressed as a single issue. A reduction in stock fund sales normally manifests itself by a decline in demand quantity and not in the number of demands. Since supply operations are predicated on the number of "movement units", issues and receipts processed by Navy Stock Points, if the number of demands do not change, then the supply operations workload remain constant. It requires the same work force to issue a demand for a quantity of one as it does to issue a demand for a quantity of one hundred. Thus, a basic core infrastructure is required to handle supply system operations. Because of funding reductions and productivity improvements in past years, this infrastructure has become more and more non-elastic as improved features have been incorporated and essential manpower reduced.

The transfer of items to the Defense Logistics Agency (DLA) has only a minimal impact on supply operations. Although the Navy no longer serves as the Integrated Material Manager, the fact that they are Navy registered interest items means that there will be a continued supply operations workload. Further, there still exists the requirement to receive, stow and issue the material at the Navy Stock Points. For the type of items that the Navy transfers to DLA, there is little significant workload reduction in the inventory management area as these items are typically easy to manage and require no special expertise, knowledge or handling. On the other hand, the items that DLA transfers back to Navy result in a substantially larger increase in Navy inventory management workload on a line item basis. These items generally get transferred for problematic reasons such as a declining source base, specification inadequacies or require special technical knowledge and expertise.

Question. In fiscal year 1990, the Navy plans to hire an additional 1,211 civilians. What are the planned workload increases to support the additional personnel?

Answer. The net increase of 1,211 civilians in fiscal year 1990 for supply operations does not represent an increase in workload as shown below:

Fiscal year 1989 current estimate	21,757
Reimbursable to direct transfer	+765
Conversion of CSS to in-house	+520
Real program growth	−74
Fiscal year 1990 budget request	22,968

Of the 1,211 increase in direct end strength, 765 end strength reflects transfers of $40.9 million to directly fund efforts at the Naval Supply Centers; Inventory Control Points; and Supervisor of Shipbuilding, Conversion, and Repair (SUSHIPS) Offices which were previously being financed reimbursably. These end strength were previously counted as reimbursably funded end strength and are now being shown as direct funded. These transfers do not represent any increase in efforts/workload from that performed in previous years. Secondly, 520 end strength of the net increase of 1,211 end strength represents the transfer of resources from other appropriations and accounts to reflect the conversion of contracted advisory and assistance services to in-house performance to reduce the risk of compromise to the acquisition procurement process. Therefore, these additional end strength do not represent any increase in workload from that performed in previous years, just a change from contractor to in-house performance of the workload.

Real program growth of −74 end strength includes growth in supply support for the re-homeporting of ships, offset by decreases for functional transfers out of supply operations and decreases from savings from Commercial Activities studies and for reductions in Project BOSS (Buy Our Spares Smart).

OPERATION AND MAINTENANCE, MARINE CORPS

Question. If the federal deficit is greater than projected, DoD will experience a sequestration of funds in order to bring spending in line.

If the deficit is as high as $146.2 billion and the military personnel accounts are exempted, DoD could expect as great as a 19.3 percent across-the-board reduction. If the military personnel accounts are not exempted, there would be an 11.8 percent reduction.

We all know that this kind of reduction for O&M will be devastating. In your opinion what would be the effect of a 19.3 percent—a $337 million-reduction in the Marine Corps' O&M budget?

Answer. Coming on top of the 9.1 percent reduction which O&MMC has already taken, an additional $337 million reduction would seriously impact upon all programs and would lead to a severe degradation of our readiness and sustainability, that we could not recover from in the near term. Moreover, we would have to start taking drastic actions as soon as possible in the current fiscal year in an effort to avoid having to institute even harsher measures in fiscal year 1990 itself.

Question. Based on this result, do you believe that the military personnel accounts should share in the sequestration to lessen the impact on the O&M account (this would mean an 11.8 percent, $206 million O&M reduction)?

Answer. The determination whether military personnel accounts should share in any sequestration would be made by the Secretary of Defense or higher. Therefore, it is inappropriate for the Marine Corps to offer a position at this time.

Question. Would your O&M budget which has been reduced by $337 million be capable of adequately supporting the Marine Corps' current force structure?

Answer. To accommodate a reduction of that magnitude every area would have to be revisited, to include force structure. It is very likely that, even if we began taking belt-tightening actions today, we still would not be able to support adequately even a reduced force structure after a $337 million reduction.

DEPOT MAINTENANCE BACKLOGS

Question. In fiscal year 1990, the Marine Corps is budgeting for an $84 million depot maintenance program and is anticipating a $22 million backlog. This backlog figure is an increase of 46.7 percent over the fiscal year 1989 level. Why has there been such a tremendous increase in the backlog of depot maintenance?

Answer. The Marine Corps depot maintenance requirements have not been fully funded which has created a backlog for fiscal year 1990. Additionally, the Marine Corps has equipment entering its lifecycle rebuild such as the AN/TPS-59 Radar, AN/MRC-135A Radio Vehicles, AN/TSC-85 Communications Central and Light Assault Vehicles. An additional unprojected requirement for rebuild of AAVP7A1 Landing Vehicles was generated from Maritime Prepositioning Ships Program (MPS).

Question. What equipment is not receiving its required maintenance? How has this affected readiness levels are any units not meeting their readiness ratings because of the depot maintenance backlog?

Answer. The equipment rebuilds which have been deferred are from all commodity areas including Radars, Radio Terminals, Stinger Launch Simulators, Test Equipment, Machine Guns, LAV's, Recovery Vehicles, and Motor Transport assets. Fiscal year 1989 readiness levels are slightly degraded but this degradation can not be attributed to depot maintenance. As depot maintenance backlogs increase in fiscal year 1990 the impact on equipment readiness becomes greater.

Question. Are the field activities pushing work from intermediate maintenance into depot maintenance as a way of meeting budget constraints?

Answer. Field activities continue to evacuate equipment to fifth echelon at the same rate as they have in the past. At this time there is no trend to indicate that the field units are increasing the flow of equipment into depot maintenance.

Question. What are the short and long term effects of carrying such a large backlog of depot maintenance from one year to the next?

Answer. The short term impact will be in sustainability and the long term impact will be in readiness. To minimize the impact of the projected backlog, programs are monitored to ensure that the most critical weapons systems and equipment items are being repaired. Continued under funding of depot maintenance will continue the growth of backlogs to unmanageable levels which will cause readiness of ground equipment to be degraded. If funding shortfalls impact on readiness drastically the following actions would be explored. Implement an Inspect and Repair Only as Necessary program in lieu of complete rebuilds, request a review of the Replacement and Evacuation Program criteria be made to consider extending hours/miles/rounds fired prior to rebuild and limiting exercises thereby reducing operation time of equipment.

REAL PROPERTY MAINTENANCE

Question. In fiscal year 1990, the Marine Corps is estimating that the backlog in real property maintenance will increase by 27 percent. Since fiscal year 1984, the Marine Corps real property backlog has grown by 158 percent. Is that what happens when the Marine Corps mission is not fully funded?

Answer. Yes, the Backlog of Maintenance and Repair (BMAR) has increased significantly, because Marine Corps' overall mission priorities have not permitted full funding of our maintenance and repair requirements.

In addition, the backlog has grown as a result of local commands' emphasis on a thorough inspection program to identify all deficiencies. This identification of our requirements is the key first step that allows for planning and the subsequent maintenance and repair of our facilities.

Question. Are the Marine Corps facilities deteriorating beyond repair?

Answer. No, our facilities are not deteriorating beyond repair. In fact, we feel that even though BMAR is increasing, the condition of our facilities is better now than in the early 1980's.

We have accomplished this by delegating responsibility for maintenance and repair to the field. Base commanders manage approximately 75 percent of this program at the local level. This level of base funding provides for routine maintenance and small repair contracts that protect our facilities from deterioration. The bases remain able to perform preventative maintenance and to make the operational repairs required to support our warfighting mission.

The problem is that at the current funding level many of these repairs are at the "Band-aid" level to solve urgent problems. "Band-aid" fixes do not alleviate the need for a permanent repair and BMAR is not reduced.

At Headquarters, we manage the remaining 25 percent of the program by insuring that the most urgent larger projects are executed. In selecting projects to execute, priority is given to our operational, training and utility requirements that are mission essential.

SUPPLY OPERATIONS

Question. The Marine Corps' fiscal year 1990 budget request for supply operations is $119.9 million. This includes $63.4 million for the depots and $56.4 million for inventory control points. This is a 4 percent increase over the fiscal year 1989 level. What is causing the increase in the cost of supply operations?

Answer. The establishment of the Marine Corps Research Development and Acquisition Command (MCRDAC) is the cause for the increase in funding. A functional transfer from Research, Development, Test and Evaluation, Navy in the amount of $5.6 million for 46 end strengths is included in Field Logistics Support to support the acquisition organization.

Question. Is the Marine Corps buying more items? If so, please provide the increase from 1989 to 1990 by item/commodity.

Answer. The Marine Corps is not buying more items in fiscal year 1990.

Question. How does the Marine Corps categorize its items-managed items or sales items? Please provide the number of line items managed, by category, for fiscal years 1985–1989.

Answer. The Marine Corps categorizes its items by Federal Supply Class. The following is a total for Marine Corps managed Stores Account Code (SAC) 1 items by fiscal year:

Fiscal year:	
1985	17,737
1986	1,296
1987	2,043
1988	2,103
1989	2,275

The decrease of 16,441 from fiscal year 1985 to fiscal year 1986 is due to the management of items transferring to the Defense Logistics Agency.

Question. In fiscal year 1990, the Marine Corps plans to hire an additional 256 civilians. What are the planned workload increases to support the additional personnel?

Answer. The increase of 256 civilian end strengths (E/S) breaks down as follows:

Plus 33 E/S. Required to fill positions at Blount Island, Florida in support of the Maritime Prepositioning Ships (MPS) program. This will free up Marines to be returned to the Fleet Marine Forces.

Plus 26 E/S. Quality Assurance hires associated with MPS biennial maintenance to ensure contractor maintenance is up to standard.

Plus 151 E/S. Associated with the establishment of the Marine Corps Research Development and Acquisition Command (MCRDAC) to streamline the functions of research, development and acquisition. Overhead and general support costs previously financed through Research Development Test and Evaluation, Navy (RDT&E,N) are now properly financed via Operation and Maintenance, Marine Corps (O&MMC). Project costs will remain financed through RDT&E,N.

Plus 46 E/S. An RDT&E,N functional transfer which brings inhouse former acquisition processing contractor support. The 46 civilian personnel are not replacing all contract efforts, therefore, there will be some contracting support provided in fiscal year 1990 and beyond.

[Clerk's note.—End of questions submitted for the record.]

THURSDAY, APRIL 13, 1989.

OFFICE OF THE INSPECTOR GENERAL (OIG)

WITNESS

DEREK J. VANDER SCHAAF, DEPUTY INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

[CLERK'S NOTE.—Due to time constraints, the hearing with the Deputy Inspector General was not held. However, his prepared statement and the questions for the record will be printed at this point.]

STATEMENT OF THE DEPUTY INSPECTOR GENERAL

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to discuss the organization and mission of the Office of the Inspector General, DoD, and to present our budget request for fiscal years 1990 and 1991.

As you know, the Inspector General, Department of Defense is one of 23 statutory Inspectors General in the Federal Government whose mission is to prevent and detect fraud, waste, and abuse, and promote improved management economy and efficiency in operations. We accomplish the mission with a vigorous program of audits, investigations, and inspections, and as participants in various management improvement activities throughout the Department.

The Inspector General Act established the statutory IGs to:

-- conduct and supervise audits and investigations relating to a Department's programs and operations;

-- provide leadership and coordination, and recommend policies designed (a) to promote economy, efficiency and effectiveness in Federal programs and operations, and (b) to prevent and detect fraud and abuse in those programs and operations;

-- review existing and proposed legislation and regulations relating to agency programs and to make appropriate recommendations; and

-- keep agency heads and Congress fully and currently informed about program deficiencies and problems, including the necessity for and progress of corrective actions.

The structure of the audit, inspection and investigation community in the DoD, and the relationship of the statutory Inspector General with the audit, inspection and investigative elements, are different from most other Federal agencies.

Most statutory Inspectors General have direct control and supervision over all audit and investigative resources within their respective departments or agencies. In contrast, the Inspector General, DoD, has under her direct operational control only about 5 percent of the approximately 22,000 personnel assigned to DoD audit, inspection and investigative organizations. However, in addition to conducting audits and investigations of Defense programs within our own audit and investigation staffs, we are responsible for providing policy guidance and evaluating the performance of the other ten DoD audit organizations and three DoD criminal investigative organizations within the Military Departments. We have the authority to request assistance from other audit, inspection and investigative organizations of the Department for the accomplishment of our statutory responsibilities.

The Inspector General Act also gave the IG, DoD, the responsibility to develop policy, evaluate program performance and monitor actions taken by all components of the Department of Defense in response to audits and internal reviews. Again, that differs from most agencies where audit followup functions are assigned to management officials.

The Inspector General Act further requires that we stay abreast of the activities of all DoD audit, inspection and investigative organizations of the Military Departments and the General Accounting Office to avoid duplication and to ensure effective cooperation.

FY 1990/1991 Budget Request Summary

Our office has received excellent support from the Secretaries of Defense and the Congress since our creation in 1982. The current FY 1990 President's Budget requests 1,531 civilian personnel and $95.8 million for our organization and the same number of civilian personnel and $97.6 million in FY 1991.

Unlike prior years, all of the funds for the Defense Inspector General Office are requested to be appropriated as one appropriation. This is in accordance with Section 108 of the Inspector General Act Amendments of 1988 which amended Section 1105 of Title 31 to require a separate appropriation request for each office of Inspector General. Included within this request are the amounts for procurement and operation and maintenance needed for the Inspector General. I should note that like prior years, the budget has been presented on the basis of using the Secretary of Defense's special authority for emergency and extraordinary expenses as specified in the Operation and Maintenance, Defense Agency Appropriation for the small amounts needed for the Inspector General's representational activities and extraordinary expenses. That authority provides the explicit appropriation language that is needed to enable funds to be used for these purposes.

While we have the same end strength in both years, we are only funded for 1,436 workyears in FY 1989. The January 1989 President's Budget includes funding for 1,501 workyears in FY 1990 and FY 1991. The increase of 65 workyears in FY 1990 represents the full impact of last year's authorization bill that required us to have not less than 657 auditors in the Office of the Inspector General. The total increase in dollars requested over FY 1989 is $5.1 million with $3.1 million in program growth associated with the increased workyears. Other increases are $1.4 million for civilian pay raises and $.6 million for price escalation.

Accomplishments of the Inspector General

Audit

The largest component within the Office of the Inspector General is Auditing. Since 1982, we have devoted over 60 percent of the IG, DoD, audit effort to acquisition activities, the function with the greatest vulnerability to fraud, waste, and mismanagement. Since FY 1983, we have issued 1,163 final audit reports and identified potential monetary benefits of $8 billion. Management has taken responsive action on over 5,000 of our audit recommendations and achieved an estimated $4.1 billion in savings and cost avoidance to date. Our recommendations resulted in numerous changes to the Federal Acquisition Regulation and to DoD directives and regulations; the realignment of functional responsibilities among DoD components; recoveries of overpayments from contractors; like termination of business with nonresponsive and dishonest suppliers; improved internal management controls; increased safety; improved readiness; more realistic planning; and more accurate reporting of financial and program data. In FY 1988, $2.1 billion in potential monetary benefits were reported by OIG, DoD, auditors. That amount exceeded the highest previous annual total by $.7 billion, or 50 percent.

Policy and Oversight

Since, we do not have authority, direction and control over most of the audit, inspection, and investigative resources in the DoD, we have found it necessary to establish small policy and oversight offices in order to evaluate the performance of the other ten DoD audit organizations and three DoD criminal investigative organizations. Those offices provide policy direction, coordination, and oversight of DoD audit and investigation activities.

The Assistant Inspector General for Audit Policy and Oversight issues policy directives and manuals prescribing audit standards, policies and procedures to be followed by all DoD audit organizations. To ensure compliance with those prescribed policies and to assess the effectiveness of audit operations, we have a vigorous, continuing program of oversight reviews. Since 1982, my staff has carried out 68 oversight reviews of DoD audit organizations and made hundreds of specific recommendations to improve audit operations. We report the results of those reviews in semiannual reports to the Congress.

Our Criminal Investigations Policy and Oversight staff conducts oversight reviews and issues pertinent policy documents to improve the performance and effectiveness of all of the Defense criminal investigative organizations. In addition, they have prepared a number of well-received publications dealing with various types of fraud. They provide training to operational personnel to recognize fraud, and train auditors and investigators in the intricacies of fraud in the procurement process.

The Assistant Inspector General for Criminal Investigations Policy and Oversight also coordinates the issuance of IG subpoenas and the DoD Voluntary Disclosure Program.

Criminal Investigations

In 1981, the DoD did not have a cadre of fraud investigators to focus on abuses in the acquisition area. One of the primary successes of the OIG, DoD, has been the evolution of the Defense Criminal Investigative Service (DCIS) into one of the premier procurement fraud investigating agencies in the world. We have given top priority to those investigations involving product substitution, mischarging of costs, fraudulent defective pricing, and schemes that undermine the integrity of our contracting system, such as bribery, kickbacks and antitrust matters. FY 1988 was the DCIS' most successful year to date as measurable by statistics. We had 319 indictments; 299 convictions; $207.5 million in fines, recoupments, and other restitution; 135 contractor suspensions and 236 debarments. In cooperation with the Department of Justice, we have in the past three years obtained criminal investigations on 14 of the Department's largest contractors. The DCIS is currently carrying the heaviest caseload since its creation: over 1,200 open investigations.

Hotline

The Inspector General, DoD, is also responsible for the DoD Hotline which provides one of our highest visibility tools for detecting abuses. In FY 1988 we pursued 1,400 matters stemming from Hotline information. Thirty-six percent were related to procurement or contracting matters. Generally, the allegations are fully or partially substantiated in about one-third of the cases opened.

Special Inquiries

The Special Inquiries staff investigates noncriminal matters such as abusive or improper behavior by Government officials, poor managerial judgment or inefficient practices. Many of the requests for investigations are from members of Congress, based on constituent complaints. We perform about 300 noncriminal, administrative inquiries annually.

Cash Awards

The OIG Cash Awards Program was initiated in November 1983. The first awards were given in May 1984. To date, 50 awards totalling $63,000 have been awarded to both civilian and military personnel. The average award is $1,500. Awards are given to those whose disclosure of fraud, waste, and abuse has resulted in considerable savings to the Department.

GAO Liaison and Audit Coordination

The DoD has over 11,000 auditors. The largest audit component is the Defense Contract Audit Agency, with over 5,000 personnel. The General Accounting Office also performs several hundred reviews annually of DoD programs. The task of coordinating such a large scale effort to ensure adequate coverage, while avoiding duplication, is a significant challenge. Before the OIG, DoD, was established, coordination was essentially left to individual audit teams. We now have established mechanisms for the systematic exchange of audit plans between audit organizations; initiated a coordinated program of DoD-wide audits; and instituted a process whereby DoD audit organization heads and I meet frequently to coordinate our efforts. Moreover, my office serves as the central DoD liaison point with the GAO. All GAO reviews affecting the DoD are announced through my staff, and we monitor the progress of each GAO effort. We arrange and attend the GAO entrance and exit conferences, coordinate the agency responses and follow up to ensure corrective actions are implemented on GAO reports. By fulfilling those responsibilities, we can also minimize audit duplication between DoD and GAO activities.

Followup

Audit and inspection efforts cannot be fully effective unless there are sound measures in place for reaching authoritative decisions on disputed reports, for tracking the status of agreed-upon corrective actions, and for identifying instances of inaction or unjustified slippage. The Inspector General Act Amendments of 1982 prescribed that the IG, DoD, will monitor managers followup actions within the DoD. The OIG, DoD, has a separate staff for prescribing DoD followup policy and for monitoring its implementation throughout the Department, as well as for tracking the status of GAO and OIG, DoD, reports.

The task of ensuring proper followup on the over 80,000 audit and internal review reports issued annually in the DoD is a formidable one. The DoD has the largest and most complex audit followup systems in the Federal Government. While the DoD component systems still have some problems, on balance they are quite effective. We put great emphasis on seeking continued improvement.

Mr. Chairman, while I believe our accomplishments to date have been significant, I can assure you that we are just beginning to make our presence felt. Individuals and organizations, both internal and external to the Department of Defense, now realize that the Inspector General is a force to be dealt with and that risks involved in overcharging, cheating or mismanaging the DoD have increased substantially. The Committee's support has been steadfast and has borne the results you and other Members of Congress anticipated when you helped to enact the Defense Inspector General legislation.

I would like to take this opportunity to address the impact of any reductions that are made to the Inspector General budgeted levels. As you are well aware, Mr. Chairman, our most important resource is our people and the support they require to do their job. Without people and the associated support costs, we cannot do the job you expect and that DoD requires. For example, despite the tremendous success of our criminal investigating organization, the DCIS strength has declined slightly from the peak achieved in 1987.

In fact, if an increase were to be made, we would place our first priority on increasing our criminal investigators. The criminal investigators have offices at some 40 different locations throughout the United States and that has made recruitment of quality people, who have the patience, skill, and desire to perform lengthy and detailed procurement fraud investigations relatively easy. We also need additional funds to advertise our Hotline in a few key "markets" to better reach Defense contractor employees. Finally, I would like to be able to provide cash awards to more Government employees who provideinformation and assist us in completing investigations, often at some personal risk. We currently provide such awards from funds used to pay our own people.

Mr. Chairman, I feel that our request can be fully justified by any reasonable measure of performance, productivity or effectiveness you or the staff choose to measure us against. I recognize that we are in an era of very tight fiscal constraints. But I trust I have provided a picture to you of what the office has done with past resources and the potential of what could be done if additional funds were made available to the Office of the Inspector General. We are certainly prepared to provide your staff with the details backing up the savings that we have achieved and reported in our semiannual reports to the Congress.

Mr. Chairman, that completes my prepared statement. I will be happy to answer any questions that you might have.

AUDITORS

Question. One of the major complaints that Members receive during visits or meetings with Defense contractors is the excessive number of auditors who visit their plants. Mr. Vander Schaaf, have you heard such complaints and do you agree that there are too many auditors visiting Defense plants?

Answer. Yes, I have received similar complaints. Since 1985, my office has conducted several reviews to determine if excessive numbers of auditors were visiting Defense contractors. The issue is clouded by the fact that most Defense contractor officials label all Government visitors as "auditors" regardless of their job classification or employing organization. For example, in April 1986, I requested the chief executive officers of 60 of the largest Defense contractors to provide us with copies of their visitor logs for the preceding year. Our detailed examination of the visitor disclosed that less than 3 percent of the Government visitors were auditors.

While we have not found evidence of excessive visits by DoD auditors, we have identified problems with respect to the number of visitors from DoD oversight organizations in general. We have been working on a joint task force with the Offices of the Under Secretary of Defense for Acquisition and the Comptroller, DoD, since 1987 to identify causes of duplicative and excessive oversight and to develop appropriate corrective measures. In December 1988, the Under Secretary of Defense for Acquisition submitted a report to the Senate on the actions taken and in process to reduce duplicative oversight. Many other actions have been taken by the Office of the Under Secretary of Defense for Acquisition and the Defense Contract Audit Agency to reassign, coordinate or reduce audit activities. We have provided oversight to those actions to ensure that the Government's interests were not jeopardized or compromised, and we will continue to review the actions to ensure that they are effective in correcting real problems.

Question. Do you believe there is an adversarial relationship between Defense contractors and auditors, whether the auditors are from DoD, GAO or our S&I?

Answer. In my opinion, there is an adversarial relationship only in the sense that contractor representatives generally feel that the company has everything to lose and nothing to gain from a Government audit. To that end, they will fight the auditor to the letter of the law. On the other hand, the auditors are going to assure themselves that the contractors abide by the laws and regulations, and, to that end, they will attempt to recover funds or initiate investigations when they feel that contractors are not complying with applicable laws and/or regulations. In most cases, the relationship between contractor officials and Government auditors is conducted in a highly professional and businesslike manner. Situations do occur, as in any work environment, where minor issues can evolve into major disputes.

Question. Do you believe that the Defense contractors are overregulated and overaudited?

Answer. No, as a general rule I do not believe Defense contractors are overaudited when that term is used to describe Government oversight performed in accordance with the standards for conducting audits as laid down by the Comptroller General or the Institute of Certified Public Accountants. As long as the DoD continues to recover billions of dollars annually as a result of audits that disclose overcharging, fraud, waste and abuse by contractors, I would find it hard to conclude that Defense contractors are overregulated and overaudited.

Our oversight reviews have disclosed that the Defense Contract Audit Agency should be doing more auditing in such areas as defective pricing, estimating systems and incurred costs. The Defense Contract Audit Agency currently has a backlog of incurred cost audits exceeding $150 billion, and that is primarily due to insufficient audit resources. Unfortunately, a lot of other oversight, which in my opinion is poorly coordinated and controlled between the Military Departments and various buying commands and program offices, has been labeled "auditing." Much of that work may very well be excessive and unnecessary.

Question. Acting Secretary of the Air Force McGovern in a hearing stated Defense should look at changing the way it goes about auditing procedures, so that good performance may result in some formula for shifting these audit resources to areas where there are more problems. Do you agree with this assessment?

Answer. What Mr. McGovern is proposing is already being accomplished by DoD audit organizations. To illustrate, when the Defense Contract Audit Agency prepares its annual audit plan for a major Defense contractor it performs a risk assessment. The assessment takes into account the quality of the contractor's systems (accounting, estimating, purchasing, etc.), results of prior audits, and the adequacy and extent of the contractor's internal reviews and controls. After the assessment is made, audits are then focused on contractor systems and operations with the greatest risk for overcharging Government contracts. All of the internal audit organizations within the DoD, including the IG, go through similar type assessments at the beginning of each fiscal year. In summary, I feel the DoD audit organizations are doing an excellent job of tailoring their audits based on the vulnerability and risk assumed by the Government. If industry participates fully in the Contractor Risk Assessment Guide initiative, communication between the contractors and the Government auditors and contracting personnel will be further improved, so that the Government rationale for oversight plans will be better understood and appreciated by the contractors.

CONTRACTOR RISK ASSESSMENT GUIDE (CRAG)

Question. A recent publication stated that DoD formally unveiled its Contractor Risk Assessment Guide (CRAG). Mr. Vander Schaaf, what is the CRAG and how will it help DoD with its auditing policies?

Answer. The "Contractor Risk Assessment Guide" (CRAG) is used in two contexts. It is both an innovative program and a quality improvement methodology.

The CRAG Program is a joint effort involving the DoD acquisition community, the DoD Inspector General, the Defense Contract Audit Agency (DCAA), and it is designed to involve the defense industry in the development of specific CRAG chapters to reduce the likelihood of violations in high risk areas, thereby making it possible for the Government to reduce auditorial oversight coverage.

As a methodology, CRAG is an organized effort directed at bringing together DoD and industry experts to anaylze and address issues of mutual concern in such areas as oversight, ethics, and contractor self-governance. The CRAG started with a focus on improving the quality of contractor internal controls and DoD oversight in five high risk areas: indirect cost submissions, labor charging, material management and accounting systems, estimating systems and purchasing. The CRAG approach entails identifying mutally acceptable objectives and means of implementing appropriate quality control systems in any area of consideration. Currently, the five chapters on contractors internal controls in selected high risk areas have been distributed within the DoD and industry.

The Council on Defense and Space Industries Associations (CODSIA) assisted in obtaining industry input to the five chapters and in disseminating CRAG information across the Nation through regional seminars. The DoD Administrative Contracting Officers will be responsible for the program at the local plant level. They will be supported by cognizant DoD oversight personnel.

The DoD CRAG Program is designed to encourage DoD contractors to develop more effective contractor internal control systems and to improve the effectiveness and efficiency of DoD oversight. Contractors who can demonstrate the implementation of internal control systems that meet CRAG control objectives will receive less direct Government oversight. By assessing the effectiveness of contractor internal control systems, the extent of Government oversight can be reduced, thereby enabling DoD to concentrate its oversight resources on known problem areas.

The contractor who wishes to use the CRAG will contact the Administrative Contracting Officer, who will arrange for the contractor to meet with the appropriate DoD oversight official (i.e., audit, contract administration, etc.). The oversight official will (i) establish with the contractor a coordination process for ensuring the Government is fully aware of the contractor's plans and accomplishments, (ii) integrate the effect of the contractor's efforts into planned oversight activities, and (iii) inform the contractor and the Administrative Contracting Officer, through periodic meetings, of the extent to which contractor activities have influenced the scope of Government oversight.

The degree of reliance that the DoD can place on any contractor internal control system covered by a CRAG chapter is, in large part, determined by the quality and performance of the contractor's system of internal controls and by the tests performed by the contractor to verify those controls. Access to and documentation of contractor tests are essential components of the CRAG assessment process. The CRAG objectives by themselves do not constitute a set of standards or a checklist for determining the adequacy of internal controls in the covered areas or for determining whether reduced oversight is warranted. The CRAG has to be used in the context of evaluating internal control systems using the regulations that are already in place.

I should also mention that the CRAG is not a certification program, and it does not require the implementation of new oversight procedures or standards in the DoD. As a risk assessment tool, which industry helped to forge, the CRAG is used in conjunction with regular assessment tools. By identifying control objectives in specific risk areas, the CRAG can become the lead review necessary to structure and control all other assessments in a risk area.

The CRAG Program does not dictate the policies, procedures, and controls to be used by contractors, nor expand the right of access to records beyond existing regulatory provisions. The intent of the program is to recognize the extent to which the contractor's existing control system can be relied on in order to ensure that DoD oversight is at a commensurate level. It is envisioned to be cost-effective for both the contractor and the DoD. If additional controls are considered necessary or if disagreements on the adequacy of controls exist, the contractor can, at his election, expand or change his control system.

The CRAG is not a crime detection program. Even in the best of internal control worlds, criminal activities can still be perpetrated. However, reliable and quality internal control systems do minimize the risks.

Participation in the CRAG does not provide any protection from criminal prosecution or administrative actions. However, contractors who can demonstrate their tangible involvement in improving and maintaining internal control systems in an area that has suffered a criminal breech will be viewed in a better light when the Department must consider administrative sanctions such as suspension and debarment.

The CRAG does not create a new cadre of personnel to run the program or to replace or supplant existing DoD oversight and contracting personnel. Differences of opinions that may arise during the evaluation of the internal control systems will be addressed, using the procedures and practices already in place within the DoD for resolving opposing views on contractor internal controls and compliance with Federal laws and DoD regulations. Any problems with CRAG implementation should be raised through the appropriate chain of command. For example, problems with DCAA auditors should be raised in their chain of command.

Question. Since this program is voluntary, do you believe there will be sufficient participation by industry?

Answer. I hope there will be sufficient participation. According to some industry representatives, there are significant levels of unnecessary DoD oversight. The CRAG now offers those representatives and their supporters the opportunity to identify cases of unnecessary oversight by using the CRAG program. A low level of participation will be reason for concern within the DoD since industry helped prepare the program. The CRAG attempts to meet industry half way in the arguments over what constitutes fair, commensurate, and controlled oversight. I sincerely hope that Defense contractors who believe that DoD oversight needs improvements or who wish to demonstrate their commitment to self-governance will also meet us halfway by participating in the CRAG Program. The DoD and Defense contractors cannot make progress in resolving oversight issues if they do not communicate and work together.

Question. Do you believe it will cut down on the number of audits required?

Answer. Yes, as a general rule it should. The CRAG Program was developed to improve DoD oversight and efficiency by, among other things, ensuring that its oversight is commensurate with the quality and performance of contractor internal control systems and by avoiding duplicative and overlapping coverage. One of the benefits of the effort will be that, where warranted, reductions in DoD oversight will be made.

The benefit should be properly understood by everyone. The DoD is not backing away from its oversight responsibilities and using the CRAG to find ways to do just that. The CRAG will not permit industry to dictate to the DoD how much oversight Defense contractors need. The CRAG does not promise to reduce oversight simply because a contractor wants to be involved in a CRAG evaluation. The decision to reduce oversight will be made on a case-by-case evaluation basis. It is not in the DoD interest to apply unnecessary oversight. It is also not in the DoD interest to reduce oversight without merit and evidence.

Let me state in no uncertain terms that the CRAG Program does not signal a change in the DoD attitude or commitment toward the importance of oversight. The DoD retains the ultimate responsibility for deciding whether and how much oversight is required to protect public interests. While the primary objective is to protect those interests, the DoD and industry cooperatively can and must develop programs to make each others oversight more effective and efficient. Our mutual goal should not be to eliminate, downgrade, or downplay oversight but to make it effective, efficient and fair. Oversight is, after all, a legal and moral obligation shared by the DoD and the Defense industry alike.

Question. Will it help alleviate any advisarial relationship between industry and auditors? If so, how?

Answer. Communication is the key to alleviating and eliminating poor relationships. The DoD, as stated, is meeting industry halfway with the CRAG Program. Frankly, DoD and Defense contractor personnel have argued all too often over degrees of reliability and quality in contractor internal controls and over levels of oversight without having a clear understanding or appreciation of each others risk perceptions and control objectives. That has led to mistakes on both sides. I am hopeful that the CRAG Program will create an improved environment for analyzing and resolving those differences.

The control objectives in the first five CRAG chapters, identified by working groups consisting of DoD and industry representatives, represent a major breakthrough in understanding each others position on specific control systems. If enough contractors elect to evaluate their control practices using the CRAG, I am certain that we will make more progress in promoting trust and confidence in each others motives and actions.

The CRAG Program also represents a cultural change for DoD oversight personnel in the sense that DoD management expects its oversight personnel to work with Defense contractors in improving conditions in a proactive or preventive manner. Our expectation is that contractor personnel will think in similar terms. We in DoD realize that we cannot audit or inspect quality into contractor internal control systems but have to work together with industry to help build quality into contractors' internal control systems which safeguard against fraud and mismanagement.

The CRAG program involves the sharing of risk assessments of contractor control systems prepared by DoD oversight personnel. We want industry to understand that we need to work together to find ways of improving not only their internal control systems but also the way the DoD conducts its oversight. Our mutual goal has to be the development of quality and reliable contractor internal control systems and DoD oversight processes. Since it is to each others mutual advantage to improve both areas, both the DoD and industry need to have a forum to discuss concerns and recommendations. The CRAG Program is such a forum. The DoD is committed to improving its oversight by using the lessons learned from the CRAG implementation. We hope that industry is similarly committed to improving their internal control systems.

COMPETITION

Question. A recent DoD IG audit was issued on the Validity of Competition Statistics being reported by DoD. This report stated that the percentage of contract dollars awarded on a Competitive basis by DoD was overstated in annual reports to Congress. Mr. Vander Schaaf, do you agree with this assessment?

Answer. Absolutely. I believe the report is right on target. DoD procurement policy officials believe that every time you solicit more than one firm, you have competition. We believe you don't have competition unless you receive more than one responsible bid. That is the fundamental difference brought out in the report.

Question. The report also challenges the definition of "competition." What is the current definition of "competition" and how does the report recommend that it be changed?

Answer. The report does not challenge the definition of "competition." It challenges OFPP's (and DoD's) interpretation of the Competition in Contracting Act of 1984 (CICA). CICA recognized that when you attempt to obtain competition by soliciting all sources, you may not receive competition and only receive one bid. The CICA requires this type of action to be recorded as a "noncompetitive procurement using competitive procedures." DoD, following guidance from OFPP, reports these procurements as "competed actions." I believe competition statistics should fully disclose these "non-competitive procurements" and not classify them as "competed awards."

Question. If the recommendations on competition which are included in the IG report are adopted, do you believe it will help reduce or increase the number of audits required? Provide details for the record.

Answer. I doubt that it will have an impact on the number of audits required. Our report addresses only the reporting of competition statistics, not the question of price reasonableness. I assume the same number of audits would still be required to evaluate reasonableness. However, as a general rule, sole source negotiated contracts meeting certain dollar levels are subject to more audit coverage than competitive awards whether awarded through negotiation or sealed bid.

INSPECTOR GENERAL ACT

Question. Mr. Vander Schaaf, in your statement you mentioned that while most statutory Inspectors General have direct control and supervision over all audit and investigative resources within their respective departments and agencies, the Inspector General of DoD has only about 5 percent of the approximately 22,000 personnel assigned to DoD audit, inspection and investigative organizations under her direct operational control. Why was the Inspector General of DoD treated differently from the other statutory Inspectors General?

What problems, if any, does this pose to the mission of the Defense Inspector General?

The OIG now has small policy and oversight offices to evaluate the personnel of the other 10 audit agencies and 3 criminal investigative organizations. How many people are in each of these small policy and oversight offices? How much could be saved if the IG, DoD, has total control over these activities?

Answer. The Congress did not consolidate all DoD audit, inspection and investigative resources under the statutory Inspector General, DoD, because it was apparently felt that the Military Departments should retain in-house capabilities to support the management initiatives, requirements and priorities of the Secretaries of the Military Departments. Moreover, there was concern over the fact that the military inspection and investigative organizations perform a variety of functions not closely related to those of the statutory Inspectors General. Examples would be aircraft accident investigations and counterintelligence activities. I was not directly involved in the congressional deliberations in 1982, however, so I do not have full insight into the matter.

The existence of a number of oversight organizations within the DoD makes coordination somewhat more difficult, although I believe that we do a good job in avoiding duplication between audits and in conducting joint investigations for example. A more significant problem is that the dispersion of resources under many different sponsors inhibits good resource allocation decisions to some extent.

The Offices of the Assistant Inspectors General for Audit Policy and Oversight and Criminal Investigations Policy and Oversight have 26 and 20 personnel onboard, respectively. The Offices of the Assistant Inspectors General for Analysis and Followup and Special Programs devote a total of about 15 staff years annually to policy and oversight activities.

I do not believe that there would be significant net operating savings if the IG, DoD, had operational control over all DoD audit and criminal investigative organizations. Although there may be some through the consolidation of various management headquarters involved in audit, inspection and investigation activities the greatest potential for savings lies with increased productivity and return on the investment in audit, inspection and investigation functions through audit savings, recoveries, fines, and restitution, not in direct operating costs.

Question. You also mentioned that the IG, DoD, has the responsibility, which other statutory IGs do not, to develop policy, evaluate program performance and monitor actions taken by all components of DoD in response to audits and internal reviews. Why was the Inspector General of DoD treated differently from the other statutory Inspectors General? What problems, if any, does this pose to the Defense Inspector General?

Answer. In 1981, former Secretary of Defense Weinberger tasked the Office of the Assistant to the Secretary of Defense for Review and Oversight (OATSD(RO)) to take the lead in establishing DoD audit followup policy and in ensuring full compliance with OMB and Congressional direction regarding the tracking of agreed-upon corrective actions and the documentation of audit results. That arrangement proved to be very workable and beneficial. The OATSD(RO) became the Office of the Inspector General, DoD, after the IG Act was amended in later 1982. Recognizing that the DoD was moving agressively to implement strong audit followup programs, the Congress added a statutory underpinning for the continued lead role of the IG in the followup effort.

Having the lead role in the DoD audit followup effort does not pose problems to the IG, DoD, although it is a challenging and demanding area. Certain aspects of our other operations are actually enhanced by the fact that we perform the followup policy making, oversight, tracking and reporting functions. For example, our audit and inspection planning is made much easier because our planners have full, immediate access to the Department's followup status records on previous GAO and OIG, DoD, reports, which are maintained in our office. That helps us to identify previous coverage readily and to target our resources on DoD programs and activities that have not been fully covered previously or are still known problem areas.

Question. In addition, you state the IG, DoD, is required to stay abreast of the activity of all DoD audit, investigation and investigative organizations of the Military Departments and the General Accounting Office to avoid duplication and to ensure effective cooperation. Since there are 10 other audit organizations and 3 criminal investigative organizations within the Defense Department, how well do you believe your office does in reducing unnecessary and duplicative audits? What else needs to be done? What degree of cooperation do you receive from each of these activities?

Answer. I believe that we do an excellent job in avoiding unnecessary and duplicative DoD audits. Likewise, coordination between the Defense Criminal Investigative Service, and the Military Department criminal investigative organizations is very good. Where problems exist, they are in the areas of (1) duplicative reviews of contractors, a major difficulty caused primarily by multiple Government reviews other than audits; and (2) duplication between GAO and DoD internal auditors, an occasional problem caused almost entirely by Congressional requests for GAO reviews in areas already under review by DoD auditors.

In general, both the DoD audit, inspection and investigative organizations and the GAO are very cooperative in terms of avoiding duplication. The DoD does need, however, to press ahead with rationalization of the contractor oversight effort. Also, the DoD, GAO and Congress need to be willing to work out reasonable divisions of labor between GAO and DoD auditors and allow them to rely on each other's professional competence.

OIG APPROPRIATION ACCOUNT

Question. Section 108 of Public Law 100-504 requires that the budget request for the OIG, DoD, be included in a separate appropriation account. While this does protect the resources provided to the OIG from any general reductions assigned to the Defense Agencies and prohibits the transfers of funds to other Defense Agencies, won't it also make it more difficult to provide additional funds and to transfer any funds into the OIG appropriation? What other problems does creating a separate appropriation have on the OIG?

Answer. Mr. Chairman, you have certainly identified the major problem, which is transfer of funds to or from the Office of the Inspector General. This can no longer be accomplished by the "regular" below threshold reprogramming. Movement of funds would now require the use of limited Secretary of Defense transfer authority and congressional approval. We are prepared to operate under these more restrictive procedures.

Question. The Operation and Maintenance, Defense Agencies appropriation includes authority for the Secretary of Defense to expend $10,642,000 for emergency and extraordinary expenses. Had OIG, in the past, utilized any of these funds?

Answer. Yes, Mr. Chairman, the OIG has used them in the past and will have continued requirements for them in the future.

Question. If so, how much and for what type items?

Answer. Mr. Chairman, in fiscal year 1989 we used $115,000 for confidential military purposes and $5,000 in Official Representatives Funds. More specifically, the funds for confidential military purposes are used to pay and meet expenses of informants on criminal case matters.

Question. Since OIG is now a separate appropriation, can it still utilize the authority provided in Operation and Maintenance, Defense Agencies?

Answer. Mr. Chairman, it is the opinion of the DoD, General Counsel that those funds are appropriated to the Secretary and he has very broad discretion in their use, which would include making a portion available to the Inspector General. Therefore, based on that, I would say we can use these funds just as we have in the past.

Question. Does OIG have any such authority in fiscal year 1990? If not, should it?

Answer. The OIG does not have specific authority for those types of funds in FY 1990. We do have a requirement for the funds in FY 1990 and expect that the Secretary of Defense will take appropriate action to make a small amount available to the Inspector General.

Question. How much would be required in fiscal year 1990 and for what purposes will it be utilized?

Answer. Mr. Chairman, we have a requirement for at least $140,000 in confidential military purpose funds. The primary use of these funds is to pay informants and make under cover buys, for example, where we suspect sale to the Government of inferior goods.

Question. Does the General Counsel of the Department of Defense interpret the above section (Section 108) to include all resources for the OIG?

Answer. Yes, they do, Mr. Chairman.

Question. Is that why procurement funds are requested in the operation and maintenance title?

Answer. Yes, it is, Mr. Chairman.

Question. What would be the ruling by the General Counsel if the procurement funds for OIG were returned to the Procurement, Defense Agencies account? Or, would a separate OIG procurement appropriation need to be included?

Answer. Mr. Chairman, obviously an appropriation could be established in the procurement "accounts" to do that, but, in our opinion, it would have to be separately identified to the Office of the Inspector General in order to comply with Section 108 of P.L. 100-504. That would increase "bookkeeping" while, in my opinion, not improve control of funds.

Question. Are funds also requested in the OIG appropriation to include reimbursement to the military services for military personnel assigned to the OIG? If not, how can the OIG appropriation include an accounting of all funds required to support the OIG?

Answer. Mr. Chairman, the Military Departments have historically budgeted for all military personnel. The funds are appropriated in the Military Personnel account. Most of the support costs associated with the Military personnel such as travel are paid from OIG funds. Again, establishing a separate military pay and allowance account for the Inspector General would serve no useful purpose and increase "bookkeeping" expenses.

Question. Why is procurement treated different from military personnel salaries?

Answer. Mr. Chairman, the reason for our request for procurement funds is to allow the organization to have funds for investment cost items. If we did not have procurement funds, we would be unable to procure items with a unit cost in excess of $15,000. While we do not make many purchases in excess of that amount, we do purchase investigative equipment and ADP equipment that exceeds the limitation.

Question. Provide for the record a detailed justification for the $1,051,000 requested for procurement. Where in the justification books can this breakout be found—O&M? Procurement?

Answer. The requested procurement funds will be used predominately for automatic data processing (ADP) equipment and associated systems. A smaller amount of these dollars will be used for special technical equipment associated with criminal investigations.

The OIG seeks to achieve a number of economies and benefits through the use of ADP. Over the last year, we have identified, through several in-house requirements studies, an information technology baseline and our information needs. Specifically, we plan to eliminate duplicate systems and steamline and automate paper intensive and time consuming manual operations in both mission and administrative areas. In addition, through systems networking, we plan to improve internal information channels and to integrate critical mission data from audits, investigations, inspections, and followup activities. These networks and data bases will enable us to more efficiently produce required documents such as the Semi-Annual Report, to aggregate similar data for planning and analyses, to readily access audit and investigative results and cost savings, and to evaluate and act on trends which could prove beneficial in the management of DoD programs. See attached chart for detailed breakdown of procurement plan.

All of the justification for OIG funds were included in the congressional justification book FY 1990/FY 1991 Biennial Budget Justification of Estimates, Volume I, Office of the Inspector General, pages 358 through 373. When the FY 90-91 budget request was being prepared, the Department transferred all of the funds for the OIG into the O&M account.

DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL FISCAL YEAR 90/91 PROCUREMENT PLAN

Item	Fiscal year—	
	1990	1991
Local area networks configurations	$650	$700
Lap tops-w/software	100	50
PCS-w/software	151	191
Technical equipment-criminal investigations	150	100
Total	1,051	1,041

In fiscal year 1990, funds will enable us to purchase 22 LAP Top and 34 Personal Computer systems.

In fiscal year 1991, funds will enable us to purchase 11 LAP Top and 42 Personal Computer systems.

Question. Why does the OIG require the assistance of 36 military personnel?

Answer. We are in every respect a part of the Department of Defense, a military organization. Military personnel help to bring this military "flavor" to our organization through special knowledge and understanding they have obtained. That knowledge and experience is put to good use in the conduct of inspections of organizations and activities managed by other military personnel and in the conduct of administrative investigations of allegations made against military members.

Question. Section 307 of the Defense Authorization Act, 1989, instructed the OIG to increase the number of audit and support personnel within the Assistant Inspector General for Audit from 550 to 657. What is the current number of audit and support personnel in the Assistant Inspector General for Audit and will the OIG be able to hire a sufficient number of qualified personnel to meet the 657 required by September 30, 1989?

Answer. Mr. Chairman, the on board strength for the Assistant Inspector General for Auditing on April 15, 1989 was 548. We have undertaken an aggressive recruiting program in order to hire a suficient number of qualified personnel. Early indications are that the recruiting program is resulting in some success, especially in our direct college campus efforts. However, we will not be able to achieve the 657 end strength by September 30, however, we should meet this target in early FY 1990. We expect to have 600 auditors on board by September 30. Anticipating these recruiting difficulties, I have reallocated funds to bring aboard more investigators into positions which were authorized but unfunded in FY 1989. We are having good results in recruiting investigators. This adjustment will provide us with a full level of both auditors and investigators in FY 1990.

Question. Was $2,500,000 below threshold reprogramming to support the fiscal year 1989 costs for these personnel?

Answer. Mr. Chairman, the $2,500,000 below threshold reprogramming was to support the fiscal year 1989 costs related to the increase in the number of audit and support personnel within the Assistant Inspector General for Auditing, as directed by the Congress.

Question. For the record, provide a breakout of resources, personnel and dollars, for each of the offices within the OIG. Provide the actual or estimated data for fiscal years 1986 through 1991.

Answer. Mr. Chairman, the information follows:

ACTUAL DATA FOR FISCAL YEAR 1986–88

	Actual—		
	1986	1987	1988
End strength:			
Inspector general	5	4	9
Auditing	512	593	530
Inspections	82	128	121
Investigations	299	337	393
Analysis and followup	45	49	58
Audit policy and oversight	25	23	22
Criminal investigations policy and oversight	16	18	19
Special programs	33	38	41
Program planning review and management	63	27	0
Administration and information management	0	91	103
Regional office Europe	0	14	14
Presidential management interns	0	0	0
Regional office Pacific	0	0	0
Total assigned	1,080	1,322	1,310
Total authorized	1,166	1,515	1,433
Funding O&M:			
Auditing	$27,357,000	$29,716,000	$44,606,000
Investigations	15,282,000	18,506,000	14,335,000
Inspections	5,788,000	6,361,000	4,932,000
Other	15,274,000	18,946,000	20,089,000
Total	63,701,000	73,529,000	[1] 83,962,000

[1] Includes Reimbursable $300.

ESTIMATED DATA FOR FISCAL YEAR 1989–91

	Estimated—		
	1989	1990	1991
End strength:			
Inspector general	10	10	10
Auditing	657	657	657

ESTIMATED DATA FOR FISCAL YEAR 1989-91—Continued

	Estimated—		
	1989	1990	1991
Inspections	147	147	147
Investigations	425	425	425
Analysis and followup	62	62	62
Audit policy and oversight	23	23	23
Criminal investigations policy and oversight	19	19	19
Special programs	47	47	47
Program planning review and management	0	0	0
Administration and information management	114	114	114
Regional office Europe	14	14	14
Presidential management interns	7	7	7
Regional office Pacific	5	5	5
Total assigned	1,530	1,530	1,530
Total authorized	1,530	1,530	1,530
Funding O&M:			
Auditing	$31,365,000	$36,465,000	$37,100,000
Investigations	20,097,900	20,097,000	20,502,000
Inspections	7,552,000	7,552,000	7,704,000
Other	30,636,100	30,635,000	31,253,000
Total	89,651,000	94,749,000	96,559,000

Question. What would be the problem in providing the above information each year in the justification book? What about providing a price and program summary by subactivity—either by office within OIG or some other type breakout. Supply recommendations for the record.

Answer. Mr. Chairman, fixed costs that cannot be easily allocated are the major problem. For example, at the present time, we do not identify costs for rental of space, telephone, etc. by organization when a mix of auditors, investigators, inspectors and others occupy the same space. If we were required to budget for all of those costs by subactivity, the administrative workload would be significantly increased. It is my recommendation that we identify civilian personnel costs and travel for Auditing, Investigations, Inspections, and all other OIG elements. All of the fixed costs should be IG operations in general. Breaking those costs out to various elements of our organization would not improve management or save money.

DOD HOTLINE

Question. Mr. Vander Schaaf, in your statement you mentioned that the DoD Hotline is one of the DoD's highest visibility tools for detecting abuses. Explain this program and how it helps OIG to combat fraud, waste, and abuse in the DoD.

Answer. The Hotline is a program office, staffed by 17 experienced investigators and administrative support personnel, which provides a channel for any person to report what they believe or perceive to be instances of fraud, waste, mismanagement or abuse in the Department. The sources of information can report problems by telephone means (FTS, AUTOVON, toll free "800" number, or regular business number), by writing to the Hotline or through personal contact and interview. The information is evaluated by the staff to determine the validity of the allegation, the cost effectiveness of conducting an inquiry, or alternate methods for the handling of such problems. Issues that are found to warrant investigation are processed into the Hotline case control system and then referred to the appropriate Military Service or DoD organization for examination. If it is determinated that the matter might not receive an objective examination, the issue will be examined within my organization. The Hotline provides oversight in these matters, requiring the examining agency/organization to provide the results of their inquiry to the Hotline for review. If the staff identifies deficiencies in the conduct of the inquiry, the agency/organization is notified and requested to correct the deficient area.

Question. On the inside cover of the DoD telephone directory is an advertisement which provides the phone numbers and address of the Defense Hotline. Where else would similar advertisement be found and what other methods are used to alert the personnel of the Defense Department on how to report fraud, waste, and abuse?

Answer. We are currently using three printed items to advertise the Hotline, a poster, a business card size copy of the Hotline posters and a brochure. The posters have been sent to all the Military Services and to DoD organizations for display in the organizational facilities.

We have made several television spot announcements which are broadcast to the overseas military personnel about the Hotline and how it can be beneficial to the Government and the military in reducing waste, fraud, and mismanagement in the DoD.

We have had a number of articles about the Hotline operation printed in local and national newspapers and in the Army, Navy, Air Force and Federal Times publications.

All of the DoD Inspector General publications contain references to the DoD Hotline or carry the Hotline poster.

Each of the Military Departments operate Hotlines for the individual Services and advertise their operations. Contained in the advertisement is also a reference to the DoD Hotline.

When individuals make personal speaking appearances, the Hotline is mentioned as a means of reporting fraud, waste, mismanagement or abuse to the audience.

Question. Does DoD provide posters for Defense industry or does it advertise in Defense related magazines? If not, why not?

Answer. In October 1987, the Defense Federal Acquisition Regulation introduced a requirement that any firm receiving a contract valued at $5 million or more is required to display prominently the DoD Hotline poster in the firms' work spaces. The DFAR advises that the poster may be obtained on request to the DoD Hotline. To date, more than 400 firms have requested copies of the poster.

The DoD Hotline is advertised in Defense sponsored magazines, such as the Defense Magazine or Military Family, on a periodic basis. There has been no paid advertisement in any commercial publication to date. The Department of Defense is restricted from the procurement of advertisement in commercial publications unless the money is appropriated for that purpose by Congress. In the past, the DoD Inspector General has relied primarily on the publicity methods described in the answer to your previous questions. However, plans are currently being developed for a new publicity campaign which will include the procurement of advertisement in commercial publications.

If the authority is granted for DoD to advertise outside the Defense Department, an initial amount of $70,000 would suffice to get the program launched and enable the Department to evaluate the success of such an endeavor.

I do not believe that such an amount could be absorbed within the current DoD budget without adversely affecting other programs, which incidentally are targeted as the same types of issues being handled by the DoD Hotline.

Question. Do you believe that if more people are aware of where to report fraud, waste and abuse, they would do so?

Answer. Yes.

Question. For the record, provide for fiscal years 1987 through 1991 the annual or estimated number of calls or letters received and the number of cases which were substantiated.

Answer. The information follows:

DEPARTMENT OF DEFENSE HOTLINE

Year	Calls	Letters	Total
1987 (actual)	9,425	1,418	10,843
1988 (actual)	10,223	1,324	11,547
1989 (estimate)	10,800	1,500	12,300
1990 (estimate)	11,500	1,500	13,000
1991 (estimate)	12,000	1,700	13,700

CASES REFERRED TO THE ACTIVITIES

Year	Referred for action	Referred for information	Total referred
1987 (actual)	849	337	1,186
1988 (actual)	1,162	220	1,382
1989 (estimate)	1,170	330	1,500
1990 (estimate)	1,248	352	1,600
1991 (estimate)	1,326	374	1,700

NUMBER OF CASES THAT WERE SUBSTANTIATED

A fully substantiated case is a case that all allegations are supported with proof or evidence of wrongdoing and corrective measures were taken.

Year	Cases substantiated	Percent of cases closed
1987 (actual)	226	13.39
1988 (actual)	214	13.43
1989 (estimate)	220	13.41
1990 (estimate)	220	13.41
1991 (estimate)	220	13.41

NUMBER OF CASES THAT WERE PARTIALLY SUBSTANTIATED

A partially substantiated case is a case that some of the allegations were supported with proof or evidence of wrongdoing and corrective measures were taken on those allegations.

Year	Cases partially substantiated	Percent of cases closed
1987 (actual)	352	20.85
1988 (actual)	309	19.39
1989 (estimate)	330	20.12
1990 (estimate)	330	20.12
1991 (estimate)	330	20.12

NUMBER OF CASES THAT WERE SUBSTANTIATED WITH NO WRONGDOING

A substantiated/no wrongdoing case is where the allegation was substantiated but due to regulations or the lack of complete information by the complainant, there was no wrongdoing. An example of a substantiated/no wrongdoing case is as follows: A person was seen walking out of the Pentagon carrying a typewriter and the complainant assumed that it was being stolen. Investigation revealed that the allegation was substantiated, however, facts not known by the complainant demonstrate the person involved had gone through all proper procedures to sign out the typewriter.

Year	Cases substantiated no wrongdoing	Percent of cases closed
1987 (actual)	67	3.97
1988 (actual)	68	4.27
1989 (estimate)	68	4.00
1990 (estimate)	68	4.00
1991 (estimate)	68	4.00

NUMBER OF CASES THAT WERE PARTIALLY SUBSTANTIATED WITH NO WRONGDOING

A partially substantiated/no wrongdoing case is where some of the allegations were substantiated but due to other circumstances, there was no wrongdoing. For an example, see substantiated/no wrongdoing above.

Year	Cases substantiated no wrongdoing	Cases closed
1987 (actual)	2	0.12
1988 (actual)	103	6.46
1989 (estimate)	80	4.00
1990 (estimate)	80	4.00
1991 (estimate)	80	4.00

Question. On a related subject, in your statement you mention that the OIG should be allowed to pay cash awards to Government

employees who provide information and assist in completing investigations. What are the cost range of these awards? Does the OIG now pay any? What additional funds would be required to pay these cash awards? Or, could they be paid from within the OIG appropriation?

Answer. The DoD-IG Cash Awards Program has awarded more than $63,000 to 50 people since its inception in May 1984. The award range has been from $200–$10,000, with the average being $1,500. The recipients of the DoD-IG cash awards are DoD employees. At the present time, contractor employees and private citizens are not entitled to these awards. According to Hotline statistics, a number of cost saving allegations come from people who are not covered by this program.

The IG, DoD, cash awards are presently being taken out of the IG, DoD, Operation and Maintenance Fund (OMF). Separate funding of $50,000 would allow the IG, DoD, to provide cash awards without impacting on its everyday operations funds. Also, separate funding would allow the opportunity to make a few well-deserved large awards which help focus attention on the program and lead to further cost savings and convictions.

[CLERK'S NOTE.—End of material on the Office of the Inspector General.]

THURSDAY, APRIL 13, 1989.

DEFENSE CONTRACT AUDIT AGENCY (DCAA)

WITNESS

WILLIAM H. REED, DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

[CLERK'S NOTE.—Due to time constraints, the hearing with the Director of the Defense Contract Audit Agency was not held. However, his prepared statement and the questions for the record will be printed at this point.]

STATEMENT OF THE DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

INTRODUCTION

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the Defense Contract Audit Agency's Fiscal Year 1990/1991 budget requests.

In the FY 1989 DoD Authorization Act Congress increased DCAA's end strength staffing from the President's amended budget level of 6,439 to 7,007. This restored DCAA's assigned staff to the level contained in the original President's Budget for the stated purpose of enhancing the capability of the Department of Defense to combat fraud, waste and abuse and to assist in restoring public confidence in the defense acquisition process. In order to efficiently assimilate this additional staffing, we requested and the Department provided half year funding for FY 1989.

The Agency is actively recruiting and training the new staff currently with the bulk of the hiring to take place over the next few months. The FY 1990/1991 budget request provides for the continued funding of the FY 1989 authorized level of 7,007. These requests, which are included under the Appropriation "Operation and Maintenance (O&M), Defense Agencies, Fiscal Year 1990/1991 Biennial Budget" total $330.1 million and $353.3 million, respectively. Over 83 percent of these amounts are required for civilian personnel salaries and benefits. The remaining 17 percent is for travel and other operating costs of a support nature.

These budget requests reflect increases in three principle areas:

- o Funding in support of the work years associated with an authorized strength of 7,007 for the entire year;
- o Increases in payroll costs for the large complement of the junior auditors now advancing towards the journeyman auditor level; and
- o Normal pay raise costs for the entire workforce.

A schedule is attached which provides additional detail about these increases.

In addition to our request for O&M funds, we are requesting approximately $3 million and $2 million for FYs 1990 and 1991 respectively under the "Procurement Defense Agencies" account. These funds will be applied to two programs:

- o Continued financing of the DCAA Integrated Information System (DIIS) which is intended to enhance Agency performance through the use of automated data processing equipment and techniques; and

- Acquisition of equipment and systems necessary for meeting normal and recurring administrative support requirements.

I would now like to provide an overview of DCAA's mission and discuss why the requested resources are critical if we are to effectively deal with key issues facing the Agency.

DCAA MISSION

DCAA's mission is to perform all necessary accounting and financial advisory services for the DoD procurement and contract administration components responsible for the negotiation, administration, and settlement of contracts and subcontracts.

This audit service involves the audit of contractors' and subcontractors' records, systems of internal control, and accounting practices and procedures. Our objective is to determine whether incurred costs or estimates of costs for contracts and subcontracts are reasonable and acceptable for government contract costing purposes. As such, the DCAA audit function is a critical part of the acquisition process.

KEY MISSION ISSUES

In the last decade, the substantial increases in the DoD Budget have caused the DCAA workload to increase proportionally. However, our staffing and budget levels have not kept pace. As a result, a $163 billion backlog of incurred cost audits developed. Currently, 13,600 contractor years of incurred cost need review. Of this number, 4,400 relate to costs incurred in FY 1985 and earlier. Even with increased staffing it will take several years to reduce this unacceptable backlog of audits. The Agency's approach has been to formulate budget proposals reflecting a steady incremental growth in audit staff over several years. DCAA is currently hiring auditors to reach a FY 1989 authorized end strength of 7,007. As I mentioned earlier, only half year funding was provided for this staff increase -- DCAA needs full year funding in its FY 1990 budget request for the 7,007 positions authorized. Stability in both the authorized staff and funding at the level in the President's budget is critical in order to make progress on the backlogged work while also fulfilling other current mission responsibilities.

THE IMPORTANCE OF EFFECTIVE AUDITING

The budget challenges ahead indicate more than ever that DoD must manage its acquisition funds effectively and assure Defense contractors fully comply with statutory and contractual obligations. To do this, contracting officials need timely and effective support from their technical advisors and experts, not the least of which is DCAA. The importance of having an effective DoD contract audit organization overseeing Defense contractor expenditures is best exemplified by the consistent savings DCAA audits have produced. In the last five years alone, our audit recommendations have enabled contracting officers to achieve cost avoidances or reductions that resulted in savings of $40.7 billion in contract expenditures. Most of these savings have been returned to program managers who relied upon them to live within their program budgets, as well as in developing future budget estimates. It would truly be a false economy to reduce auditors at the very time they're most needed to assist in getting the best value for our available defense dollars in current contract negotiations, as well as recovering any excess or unallowable cost paid on existing contracts. The Department has recognized this in its support of DCAA's budget request.

CONSEQUENCES OF NOT RECEIVING REQUESTED FUNDING

If the President's budget request for DCAA is reduced we would first have to curtail a planned increase of 87 staff years in defective pricing audits. An increase in the number of these reviews is scheduled due to the very high incidence of contractor overpricing found in prior audits. The DoD IG, GAO and Congress have all urged the Department to increase efforts in this area. If reductions could not be fully absorbed in this area, it would be necessary to once again defer audits of incurred cost. This deferral would, at a minimum, reduce our ability to make an inroad into our backlog of incurred costs. Depending on the size of the reduction there could be a substantial increase in the level of unaudited contractor claims. The consequences of continued deferral of audits of incurred costs are:

- The potential of contractors being paid more money than entitled until the final audit is accomplished;
- Inability to close out contracts and deobligate funds;
- Increased risk of deficient contractor internal controls and practices leading to fraud, waste and other irregularities;

- o Contractors use of unaudited historical costs, that may contain unallowable or unreasonable costs, as a baseline for pricing future weapons systems; and
- o Financial hardships on smaller contractors because of contract withholds, which can't be paid until contracts are audited and closed.

Reductions to other DCAA mission areas cannot be made without affecting acquisition's ability to negotiate ongoing contract awards or detracting from DCAA's ability to be responsive to sensitive issues requiring immediate attention. Recent examples of sensitive issues are:

- o Material management and accounting system reviews which to date have resulted in recommended and actual withholdings exceeding $700 million
- o Consultant costs review requested by former Secretary Carlucci which disclosed $45.9 million of questionable costs.

Also critical is audit support to investigative agencies which has resulted in significant savings to the Government (Sundstrand - $125 million, Bell Helicopter - $70 million, Motorola - $16 million). The current Ill-Wind investigation is already resulting in expanded audit requests from the Navy.

Any shortfalls in resources will translate to diminished audit coverage of key areas and/or continued growth of the incurred cost audit backlog. If the requested budget is approved, experience has shown that the overall cost reductions to the Department of Defense and the taxpayers should far exceed the costs of maintaining our staffing levels.

CONCLUSION

Savings to the Government, as a result of contract audit, have consistently outweighed the cost of Defense Contract Audit Agency operations. In fiscal year 1988, operation of the Agency cost $269 million, and the taxpayers saved $9.5 billion through lower procurement costs. The return, shows a savings of $35 for each dollar invested in the Defense Contract Audit Agency.

With respect to our budget request, I believe that there is a more important issue to consider here than DCAA's return on investment -- that is the matter of public trust and accountability. The Department is making every effort to ensure expenditures are made prudently. DCAA plays a key role in this process and our contract audits help maintain and preserve the confidence of the public and the Congress in the DoD contracting environment.

Mr. Chairman, this concludes my statement. I thank you and the members of this Committee for the opportunity to discuss our budget request. I will be pleased to answer any questions that you and members of your Committee may have.

SCHEDULE OF PRICE AND PROGRAM GROWTH
IN DCAA'S FYS 1990 AND 1991 BUGET REQUESTS
(MILLIONS)

	FY 1989	Increase	FY 1990	Increase	FY 1991
A. FUNDING:					
President's Budget Jan 1989	$291.1	$ 39.0	$330.1	$ 23.2	$353.3
COMPOSITION:					
PRICE GROWTH:					
Within Grades and Advancement of Junior Auditors Hired in FY 86/87/89		$ 10.7		$ 12.3	
Pay Raises		6.8		8.3	
Other		1.2		0.8	
Total Price Growth		$ 18.7		$ 21.4	
PROGRAM GROWTH:					
Effect of Prior Yr. Staffing Increase (FY 90)		$ 15.0		$ 0.0	
Other (ADP Maintenance/ Training/Misc.)		5.3		1.8	
Total Program Growth		$ 20.3		$ 1.8	
TOTAL		$ 39.0		$ 23.2	
B. STAFFING:					
President's Budget Jan - 1989					
End Strength	7,007	0	7,007	0	7,007
Workyears	6,384	+ 483	6,867	0	6,867

FY 1990

FY 1990 shows an increase of $39 million above FY 1989. Let me explain the composition of this amount:

PRICE GROWTH

Salary advancement of the large number of junior auditors hired at the trainee level in FY 1987 is a significant cost which the Agency will have to bear over the next several years until these new employees reach the journeyman auditor level. They were hired primarily at the GS-7 level during FY 1987, and the majority will advance to the journeyman GS-12 level by FY 1991. This, together with normal within grade salary increases for the remaining workforce who qualify, will cost $10.7 million. Other pay related costs are for the annualization of the FY 1989 pay raise, and the projected 2 percent FY 1990 pay raise, for a total of $6.8 million. Another $1.2 million is for the increased cost of housekeeping activities such as travel, rental payments to GSA, communications, transportation, supplies and equipment.

PROGRAM GROWTH

Since DCAA was provided partial year funding for the additional positions authorized in FY 1989, $15 million will be required in FY 1990 to fully fund this increase. Measured against the amended FY 1989 President's Budget level of 6,439 positions, the authorized staffing of 7,007 represents an increase of 568 positions. From a corresponding funded workyear perspective, a total of 6,867 funded workyears are requested for FY 1990, representing an increase of 483 workyears over the FY 1989 workyear level of 6,384.

In FY 1985, the DCAA began a project to use automated data processing equipment and techniques in a deliberative way. In yearly increments, an integrated information processing network was developed, and for the most part installed to support word processing, data processing, and telecommunications functions in our 170 field audit offices, six regional offices, and the Agency Headquarters. Implementation of this capability known as DIIS (DCAA Integrated Information System) has improved the quality of audit management and performance, reduced the time required to perform audit activities, and improved methods of handling and reporting information throughout the Agency. The increase of $3.2 million required for the DIIS is for increased maintenance costs, additional system design and software development, and increased telecommunications costs for installation of the nationwide DIIS network.

The last significant increase in program growth is $2.1 million related to training for the large number of auditors who are now progressing from the trainee to the full performance level. These new auditors must travel from their duty stations throughout the United States to attend contract audit courses at the Defense Contract Audit Institute (the Agency's professional auditor training institute in Memphis, TN). The courses taught at the Institute are not offered as part of the normal college curricula for accountants; therefore newly hired auditors must undergo this training. This includes several weeks of technical indoctrination, incurred cost and price proposal audit courses, and other more advanced auditing and accounting courses essential to conducting audits of Defense (and other) contractors.

FY 1991

The FY 1991 increase from FY 1990 is $23 million as follows:

PRICE GROWTH

It is composed of $5.5 million for the continuing career advancement of the 1,207 trainee auditors hired in FY 1987 to the journeyman auditor level (GS-11 to GS-12). Likewise, another $4.6 million relates to career advancement of the 1,246 junior auditors to be hired over the course of the year in FY 1989 to the next career level (GS-7 to GS-9). Normal within grade salary increases for the remaining workforce account for another $2.2 million, or a total of $12.3 million related to salary increases for career advancement. Other pay related costs are for annualization of the FY 1990 pay raise and the FY 1991 raise, equating to $8.3 million. Another $.8 million will support increased travel, rental payments to GSA, telecommunications, transportation, supplies and equipment in FY 1991.

PROGRAM GROWTH

The effect of one additional paid day in FY 1991 translates to $1.2 million, and $.6 million is intended for additional equipment maintenance and service costs for the DIIS, amounting to $1.8 million for program growth.

AUDITORS

Question. One of the major complaints that Members receive during visits or meetings with Defense contractors is the excessive number of auditors who visits their plants. Mr. Reed, have you heard such complaints and do you agree that there are too many auditors visiting Defense plants?

Do you believe that Defense contractors are over-regulated and over-audited?

Answer. Contractors have not provided any factual basis for these assertions, nor has DCAA or the DoD Inspector General been able to find any significant cases or unnecessary or duplicative effort. According to the DoD Inspector General, the use of the term "overaudited" by defense contractors includes any kind of perceived government intrusiveness into their business affairs. This includes the contractor/government interrelationships associated with the roles of contracting officers, program managers, quality assurance personnel, inspectors, auditors and congressional staff members.

This complaint was also addressed by the Packard Commission. As a result of the Packard Commission recommendations, the Department of Defense revised the Federal Acquisition Regulation on January 11, 1988, to specify that prospective visitors to contractor facilities are to provide advance information concerning the visit to on-site government personnel. If the visit will result in reviewing, auditing, or obtaining any information from the contractor related to functions which has been delegated to contract administration offices, on-site government personnel will determine whether information adequate to fulfill the stated requirement has recently been reviewed by or is already available within the government. If so, the prospective visitor will be referred to the government office when the information is located and the visit will be discouraged.

Question. Do you believe there is an adversarial relationship between Defense contractors and auditors, whether the auditors are from DoD, or our S&I staff?

Answer. I can only respond to the relationship between Defense contractors and DCAA. Since we have differences of opinions with Defense contractors on the meanings or interpretation of procurement regulations, some degree of adversity is unavoidable. However, DCAA auditors conduct themselves in a professional manner and whenever appropriate have open discussions and exchanges of information. At large Defense contractors it is DCAA policy to conduct entrance, interim and exist audit conferences with the appropriate contractor personnel.

In addition, DCAA representatives meet with contractor personnel in various professional seminars and panels throughout the country. I have met with numerous industry respresentatives and recently briefed the board of directors audit committee of nine of the largest defense contractors. From my experiences, I would classify our relationship with Defense industry as professional.

Question. Acting Secretary of the Air Force McGovern in a hearing stated that Defense should look at changing the way it goes about auditing procedures, so that good performance may result in some formula for shifting those auditing resources to areas where there is more problems? Do you agree with his assessment?

Answer. I have not received any information on Mr. McGovern's statement.

In response to your question, during our planning process we perform risk assessments and analysis to place our resources where they will do the most good for the Department of Defense. A part of the contractor self-governance program is to have contractors demonstrate their adherence to Government regulations and good internal controls. To the extent it is demonstrated that contractors are doing a better job of "self-governance," government oversight can be shifted to other priorities or other locations. However, I stress that the underlying principle involved in this approach must place the primary responsibility for adherence with Federal laws and regulations on the contractors.

CONTRACTOR RISK ASSESSMENT GUIDE (CRAG)

Question. A recent publication stated that DOD formally unveiled its Contractor Risk Assessment Guide (CRAG). Mr. Reed, are you aware of CRAG? Do you believe it will help DOD with its auditing policies?

Answer. In November 1988, the Contractor Risk Assessment Guide (CRAG) Program was published. The CRAG Program was developed jointly by the Under Secretary of Defense for Acquisition, the Inspector General, DOD, the Defense Contract Audit Agency, and by the defense industry. This is a program to encourage contractors to develop more effective internal control systems. There are currently five CRAG chapters covering the following risk areas: Indirect Cost Submissions, Labor Charging, Material Management and Accounting Systems, Estimating Systems, and Purchasing.

If a contractor can demonstrate that the internal control systems used by the company meet the stated CRAG objectives, then DOD audit and oversight in the area(s) will be reduced. Ultimately, the Department retains the responsibility for deciding how much audit and oversight coverage is sufficient to protect the public interest. However, to the extent that contractors develop more effective internal control systems, there will be a positive effect on DOD auditing.

Question. Since this program is voluntary, do you believe there will be sufficient participation by industry?

Answer. The CRAG program is just getting started. Numerous contractors are participating now, and I believe that there will be sufficient participation by industry in time.

Question. Do you believe it will cut down on the number of audits required?

Answer. The CRAG program does not change the Department of Defense's audit and oversight responsibilities. The purpose of the CRAG program is to encourage contractors development of more effective internal control systems. If a contractor can demonstrate that the internal control systems used by the company meet the stated CRAG objectives, then DOD audit and oversight in those area(s) may be more appropriately used on other priorities or locations.

Question. Will it help alleviate any adversarial relationship between industry and auditors? If so, how?

Answer. As I stated in an earlier question, some adversity is probably unavoidable. However to the extent that areas of differences can be reduced and open communication on problems enhanced, the degree of adversity can be reduced to that normally found in the give and take of business relationships.

COMPETITION

Question. A recent DOD IG audit was issued on the Validity of Competition Statistics being reported by DOD. This report stated that the percentage of contract dollars awarded on a competitive basis by DOD was overstated in annual reports to Congress. Mr. Reed, are you aware of this report and do you agree with this assessment?

If the recommendations on competition which are included in the IG report are adopted, do you believe it will help reduce or increase the number of audits required?

Answer. I am not aware of this IG report. I believe the DOD IG can best respond to the issues involved in that report.

DCAA APPROPRIATIONS

Question. Section 307 of the Defense Authorization Act, 1989, instructed the DCAA to increase the number of audit and support personnel from 6,437 to 7,007. The additional personnel were authorized in order to enhance the capability of the Department of Defense to combat fraud, waste, and abuse by continuing the initiative on reducing DCAA's backlog of unaudited incurred contract costs begun in fiscal year 1987 and to fulfill the Agency's obligation to adequately perform defective pricing reviews of negotiated Government contracts. How many of these additional 570 personnel were assigned to incurred audits, to defective pricing? How many were assigned to other sections of DCAA?

Answer. DCAA's authorized strength actually increased by 568 positions, from 6,439 to 7,007. On an equivalent workyear basis it increased by 295 workyears, from a level of 6,089 in the President's Budget of February 1988 to 6,384 currently. All of the additional workyears were assigned to incurred cost audits.

Question. Will DCAA be able to hire a sufficient number of qualified personnel to meet the 7,007 required by September 30, 1989?

Answer. Yes, we are currently conducting a national recruiting campaign and making progress toward meeting our goal.

Question. Was the $5.1 million prior approval reprogramming to support the fiscal year 1989 costs for these personnel? If not, for what was it used?

Answer. Yes, the entire $5.1 million was used to support the fiscal year 1989 costs for those personnel.

Question. What is the current backlog of incurred audits? What will be estimated backlog at the end of fiscal year 1990?

Answer. The backlog at the end for fiscal year 1988 was $163 billion and is expected to grow to approximately $170 billion by the end of fiscal year 1989. At the end of fiscal year 1990, the backlog is estimated to be $159 billion. This large backlog accumulated in the last decade due to the substantial buildup in the DOD budget which caused DCAA workload to increase proportionally. Yet, the

DCAA staffing and budget levels did not keep pace with the buildup in workload requirements. With the increase in staffing resulting from section 307 of the fiscal year 1989 Defense Authorization Act, we project that the backlog will be reduced to an acceptable level by the end of fiscal year 1994, assuming other work load projections do not vary significantly. However, stability in both the authorized staff and funding at the authorized end strength of 7,007 is necessary in order for us to meet our fiscal year 1994 backlog goal.

Question. Both the Inspector General of DOD and the General Accounting Office recommended that DCAA increase defective pricing coverage of lower dollar contractual actions. What was the previous dollar threshold and to what is it being decreased?

Answer. There has not been a change in dollar threshold regarding our defective pricing reviews. In our planning process, we develop a defective pricing matrix based upon contract type and contract amount. We use this approach to plan and apply our resources where they will be the most effective. Based upon our matrix, we perform defective pricing reviews on all contracts over $50 million, selected contracts between $10 and $50 million and on contracts under $10 million where defective pricing is suspected. The GAO and IG are referring to the fact that we did not allocate staff in the fiscal year 1987 and 1988 planning process on contracts under $10 million unless we had an audit lead, that is a possibility that defective pricing may have occurred.

Question. For the record, provide a breakout of resources, personnel and dollars, for each of the offices within the DCAA. Provide the actual and estimated data for fiscal years 1986 through 1991.

Answer. DCAA's lowest level breakout for appropriated funds is at the Regional Office level. We do not maintain budgets, or account for costs at our Field Audit Offices (FAOs) which are the lowest organizational level within DCAA.

Question. What would be the problem in providing the above information each year in the justification book? What about providing a price and program summary by subactivity—either by office within DCAA or some other type breakout. Supply recommendations for the record.

Answer. DCAA does not maintain this type of information at the FAO level. We believe it is more efficient for us to manage this information at the Regional Office level.

Price and program growth information is derived based on Agency-wide data maintained at the Headquarters office. This information is explained in the budget justification book at the Headquarters level.

[CLERK'S NOTE.—End of the material on the Defense Contract Audit Agency.]

WEDNESDAY, MAY 17, 1989.

UNITED STATES COAST GUARD

WITNESSES

ADM. PAUL A. YOST, JR., COMMANDANT, U.S. COAST GUARD

INTRODUCTION

Mr. MURTHA. The Committee will come to order.

We want to welcome Admiral Yost to the Committee today, and also back from Alaska. We have been following your trips and I appreciate the work that you have done in such a disastrous situation.

This Committee has great admiration for the Coast Guard. We have some strong supporters on this Committee, including myself. We feel very strongly that the Coast Guard has a valuable role in our national defense and also in the other duties that you perform; you perform them well and we appreciate that.

We admire the amount of time and effort you have had to spend, and the service you are doing for the country, trying to get this tragic oil spill under control in Alaska. We appreciate everything you are doing, Admiral.

Of course, the real supporter of the Coast Guard, Silvio Conte, the spokesman for the Coast Guard and your emissary to the Congress, is not here today. He is up with the President. He may come in later, but he admonished me to make sure we take care of the Coast Guard.

We will put your whole statement in the record, Admiral. While we only make a very small contribution to your overall budget, we are interested in what you do with what we contribute. If you would just summarize your statement and tell us what you do with the money that the Committee gives you and make any requests that you might want to make. Later we will ask you some questions. Please proceed.

SUMMARY STATEMENT OF ADMIRAL YOST

Admiral YOST. Thank you very much and good morning, Mr. Chairman. I am pleased to meet with you and the other distinguished members of this Committee.

Mr. Chairman, I will condense my remarks and ask that my complete statement be included in the record.

Accompanying me today are my Chief of Staff, Rear Admiral Bruce Beran; the Chief of the Programs Division, Captain Ken Thompson; and the Chief of the Budget Division, Captain Dave Spade.

I want to start by thanking you, Mr. Chairman, and the members of the Committee for your strong support of the Coast Guard during this decade. The support of this Committee was instrumental in obtaining the funding we needed.

ROLE OF THE COAST GUARD

I want to be sure your Committee has a true understanding of our service and the vital contributions we make to this Nation. I want you to know the indispensable role that we have played in every war our country has fought. I want you to understand the critical mission responsibilities we have under our Nation's war plans, and it is most important that you realize that the skills we develop in carrying out our multi-mission peacetime responsibilities directly related to our defense readiness responsibilities—especially in coastal defense missions and low-intensity conflict scenarios.

FUNDING FOR THE COAST GUARD

Mr. Chairman, the Coast Guard has not been fully funded within the Department of Transportation for many years. Congress has, instead, turned to other sources to supplement the Coast Guard's appropriation.

As you are well aware, DOD has been the prime contributor, providing $1.78 billion in funds and services-in-kind since 1982. As you have mentioned, Silvio Conte and Les AuCoin have certainly been two of the stalwarts in the House that have carried us, along with yourself, Bill Young, and others; and in the Senate, Ted Stevens.

The list of Coast Guard projects partially supported with the Acquisition, Construction and Improvements money we received from DOD is quite lengthy. Virtually all of our major cutter, aircraft, and command control and communications projects during this decade have been supported, at least in part, by DOD funding.

Since 1986, we have received $519 million in non-recurring funding support from DOD to meet our routine operating expenses needs. Without the resources provided by DOD, the Coast Guard would have been unable to fully support its many mission responsibilities in a fashion that the American people have come to expect during our 200 years of service.

We would have fewer stations, cutters, aircraft and people. We would not be as strong as we have been in the war on drugs. We would not be as prepared to meet our Maritime Defense Zone responsibilities; and because we truly are a multi-mission organization, our effectiveness in virtually all of our missions would have significantly declined, and that includes the Valdez oil spill.

Having said that, let me also say that I think it is unfortunate that the Coast Guard has had to depend on "one time" funding and services-in-kind from the Department of Defense to meet our capital requirements and basic operational needs.

The uncertainty of such funding and, frequently, its earmarkings, are disruptive to effective strategic planning. It is not the way to run an operating agency that provides such a variety of critical services to the American people.

The recurring nature of this annual "bailout" calls out for a permanent budget solution—one that provides full Coast Guard funding within the Department of Transportation.

I think it is time to solve this problem once and for all.

I have repeatedly asked, and I have asked our Committee chairmen again this year, to fully fund the Coast Guard within the Transportation appropriations. The gentlemen I'm talking about are Senator Lautenberg and Congressman Bill Lehman.

Mr. MURTHA. We would be delighted to have that happen, Admiral.

FUNDING ALLOCATIONS

Admiral YOST. I have never asked for funds from DOD. As the Budget Committees make their Section 302a and the Appropriations Committees make their Section 302b allocations, I ask for the leadership and support of this Committee in helping to resolve the Coast Guard funding problem.

The 302a's are already done and I can't see that the 302a allocations have taken into account this problem at all, but, Mr. Chairman, the bottom line is we need all of the money the President is asking for in the Coast Guard budget request.

If we don't get it, we will have to size the Coast Guard accordingly. That is not something we want to do. We don't think that is what this Congress or the American people want.

I will be happy to respond to any questions from you or the members of the subcommittee, Mr. Chairman.

[The statement of Admiral Yost follows:]

U.S. Department of Transportation
United States Coast Guard

Commandant
United States Coast Guard

Washington, D.C. 20593-0001
Staff Symbol:
Phone:

DEPARTMENT OF TRANSPORTATION

U. S. COAST GUARD

STATEMENT OF ADMIRAL PAUL A. YOST JR.

ON DEPARTMENT OF DEFENSE FUNDING OF COAST GUARD

HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON DEFENSE

COMMITTEE ON APPROPRIATIONS

17 MAY 1989

Admiral Paul A. Yost, Jr.
Commandant
United States Coast Guard

Admiral Paul Alexander Yost, Jr. became the 18th Commandant of the United States Coast Guard on May 30, 1986. He was nominated to that position while serving as Commander Atlantic Area, Commander Maritime Defense Zone Atlantic and Commander Third Coast Guard District in New York City where he was assigned in 1984.

In these roles, the Admiral was responsible for Coast Guard operations in the Atlantic, Caribbean and Gulf of Mexico including drug interdiction, maritime law enforcement and search and rescue, as well as maritime coastal defense under the authority of the Commander in Chief, Atlantic Fleet, United States Navy. Prior to his Third District assignment, Admiral Yost was Chief of Staff at Coast Guard Headquarters in Washington for three years, where he managed planning, programming and budgeting for the service. He was promoted to flag rank in 1978 and served as Eighth District Commander in New Orleans for three years.

Admiral Yost's management and operational positions included Chief of Staff and Chief of Operations for Seventeenth Coast Guard District in Alaska in 1975 and Commander Task Group 115.3, a combat command in Vietnam, in 1969. In addition, he served as Special Assistant to the Deputy Secretary, Department of Transportation and as an Alternate Delegate on the U.S. Law of the Sea Delegation. Admiral Yost was Captain of the Port, Seattle, Washington in 1974, Special Assistant to the Chief Counsel, Coast Guard Headquarters in 1972 and Chief, Bridge Branch, Aids to Navigation Division, Headquarters in 1970. Seagoing duty included command of the Coast Guard Cutter RESOLUTE in San Francisco, California in 1966.

Admiral Yost was graduated from the Naval War College at Newport, Rhode Island in 1964. He received master's degrees in international affairs from George Washington University in 1964 and in mechanical engineering from the University of Connecticut in 1959. He also completed course work toward a master's degree in business administration. Admiral Yost received a Bachelor of Science degree from the U.S. Coast Guard Academy in New London, Connecticut in 1951.

The Commandant's awards include two Distinguished Service Medals, Silver Star, Legion of Merit with combat "V" and a gold star, Meritorious Service Medal, Combat Action Ribbon, Korean Service Medal and United Nations Service Medal. He also received the Cross of Gallantry with Silver Star (RVN), Presidential Unit Citation, Navy Meritorious Unit Commendation and the Distinguished Service Medal (RVN).

A native of St. Petersburg, Florida, Admiral Yost is active in church, school and community affairs. He was awarded the Silver Beaver Award by the Boys Scouts of America.

Admiral Yost is married to the former Jan Worth of Wakefield, Massachusetts. Mrs. Yost earned a degree in communications from the University of Maryland. They have five children: Linda, Paul III, David, Lisa and Christopher. The Yosts reside in Chevy Chase, Maryland.

DEPARTMENT OF TRANSPORTATION
U.S. COAST GUARD
STATEMENT OF ADMIRAL PAUL A. YOST, JR.
ON DEPARTMENT OF DEFENSE FUNDING OF COAST GUARD
HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON DEFENSE
COMMITTEE ON APPROPRIATIONS
17 MAY 1989

GOOD MORNING, MR. CHAIRMAN. I AM PLEASED TO MEET WITH YOU AND THE OTHER DISTINGUISHED MEMBERS OF THIS SUBCOMMITTEE.

ACCOMPANYING ME TODAY ARE MY CHIEF OF STAFF, REAR ADMIRAL BRUCE BERAN; THE CHIEF OF THE PROGRAMS DIVISION, CAPTAIN KEN THOMPSON; AND THE CHIEF OF THE BUDGET DIVISION, CAPTAIN DAVE SPADE.

MR. CHAIRMAN, THE COAST GUARD HAS ENJOYED A LONG, PROUD, AND CLOSE RELATIONSHIP WITH THE OTHER MILITARY SERVICES, ESPECIALLY WITH THE U.S. NAVY. WE'VE BEEN IN EVERY WAR THIS COUNTRY HAS FOUGHT SINCE THE INCEPTION OF OUR NATION. WE HAVE 30 BATTLE STREAMERS ON OUR COLORS. THE COAST GUARD LOST A GREATER PERCENTAGE OF PEOPLE IN WORLD WAR I THAN ANY OTHER ARMED SERVICE. OUR CUTTERS SANK ALL THE U-BOATS THAT WERE SUNK IN THE NORTH ATLANTIC IN THE CRITICAL CONVOY BATTLES IN THE WINTER OF 1942 AND 1943. WE HAD OVER 30 VESSELS IN VIETNAM. WE PLAYED A ROLE IN GRENADA AND IN THE PERSIAN GULF. THROUGH THE NAVGARD BOARD THE NAVY AND COAST GUARD HELP FORMULATE NATIONAL DEFENSE MARITIME POLICY. I SERVE AS AN ADVISOR TO THE JOINT CHIEFS OF STAFF AND ATTEND THE ANNUAL COMMANDERS-IN-CHIEF CONFERENCE. WE ARE PART OF EVERY COMMANDER-IN-CHIEF'S WAR PLAN IN THIS COUNTRY, EXCEPT ONE, AND THAT'S SPACECOM.

WHILE WE ARE PROUD OF OUR DEFENSE ROLE, WE ALSO BELIEVE THAT THE COAST GUARD ADMINISTRATIVELY BELONGS IN THE DEPARTMENT OF TRANSPORTATION. FOR THE MOST PART, THE AMERICAN PEOPLE IDENTIFY US WITH OUR PEACETIME MISSIONS OF: SEARCH AND RESCUE, ENVIRONMENTAL PROTECTION, LAW ENFORCEMENT, ICEBREAKING, AIDS TO NAVIGATION, AND MARITIME SAFETY. THE SKILLS THAT WE DEVELOP IN PERFORMING OUR PEACETIME MISSIONS DIRECTLY RELATE TO THE SKILLS THAT WE NEED TO MEET OUR MILITARY READINESS RESPONSIBILITIES - ESPECIALLY IN COASTAL DEFENSE AND LOW INTENSITY CONFLICTS. WE'RE EXPERIENCED IN SEA AND AIR SEARCH, SURVEILLANCE AND INTERCEPT, AND IN CONDUCTING VESSEL INSPECTIONS AND FINDING HIDDEN COMPARTMENTS. WE OPERATE AN EXTENSIVE C3I NETWORK IN SUPPORT OF OUR MANY MISSIONS. OUR UNITS OPERATE INDEPENDENTLY IN FARAWAY PLACES, SUCH AS OUR ICEBREAKERS IN THE POLAR REGIONS, AND AS A DRUG INTERDICTION TASK FORCE COVERING THE ENTIRE CARIBBEAN. AND WE ROUTINELY CONDUCT MILITARY READINESS TRAINING EXERCISES.

DOD BUDGET SUPPORT

OUR FY 1990 BUDGET REQUEST ASSUMES NO DOD FUNDING, BECAUSE WE STRONGLY BELIEVE THAT THE COAST GUARD SHOULD BE FUNDED WITHIN THE TRANSPORTATION APPROPRIATION. ADMITTEDLY, MUCH OF THE FUNDING AND SERVICES-IN-KIND WE RECEIVED DURING THIS DECADE FROM THE DEPARTMENT OF DEFENSE HAVE BEEN ABSOLUTELY ESSENTIAL TO THE COAST GUARD. WITHOUT THESE RESOURCES, WE WOULD HAVE BEEN UNABLE TO FULLY SUPPORT OUR MANY MISSION RESPONSIBILITIES IN A MANNER THE AMERICAN PEOPLE HAVE COME TO EXPECT DURING OUR 200 YEARS OF SERVING THIS NATION. WE WOULD HAVE FEWER STATIONS, CUTTERS, AIRCRAFT, AND PEOPLE. WE WOULD NOT BE AS STRONG AS WE HAVE BEEN IN THE WAR ON DRUGS. WE WOULD NOT BE AS PREPARED TO MEET OUR MARITIME DEFENSE ZONE RESPONSIBILITIES. AND BECAUSE WE ARE TRULY A MULTI-MISSION ORGANIZATION, OUR EFFECTIVENESS IN VIRTUALLY ALL OF OUR MISSIONS WOULD HAVE SIGNIFICANTLY DECLINED.

HAVING SAID THAT, LET ME ALSO SAY THAT I THINK THAT IT IS UNFORTUNATE THAT THE COAST GUARD HAS HAD TO RELY ON FUNDING SUPPORT AND SERVICES-IN-KIND FROM THE DEPARTMENT OF DEFENSE TO MEET OUR CAPITAL PLANT REQUIREMENTS AND BASIC OPERATIONAL RECURRING NEEDS. I HAVE NEVER INITIATED A REQUEST FOR FUNDING FROM SOURCES OUTSIDE THE DEPARTMENT OF TRANSPORTATION. I BELIEVE, AS DO SECRETARY SKINNER AND THE ADMINISTRATION, THAT THE COAST GUARD SHOULD BE FULLY FUNDED WITHIN THE TRANSPORTATION DEPARTMENT. I MADE THIS POINT AGAIN THIS YEAR, WHEN I TESTIFIED BEFORE OUR APPROPRIATIONS SUBCOMMITTEES.

SINCE 1982, THE DEPARTMENT OF DEFENSE HAS CONTRIBUTED $1.78 BILLION IN FUNDING AND SERVICES-IN-KIND TO THE COAST GUARD, IN PART, TO HELP FUND THE PRESIDENT'S REQUESTS. THIS IS IN ADDITION TO THE AMMUNITION, WEAPONS SYSTEM, CRYPTOGRAPHIC, COMMUNICATIONS, ELECTRONICS, AND SENSOR SYSTEM SUPPORT THAT WE'VE BEEN GETTING FOR YEARS.

OPERATING EXPENSES (OE)

OF THE $1.78 BILLION, ABOUT THIRTY PERCENT HAS BEEN PROVIDED FOR OUR OPERATING EXPENSES PROGRAMS, PRIMARILY TO FUND OUR RECURRING ANNUAL COST OF DOING BUSINESS. 1986 WAS THE FIRST YEAR THAT WE RECEIVED DOD FUNDS FOR THIS PURPOSE, AND WE HAVE RECEIVED

THIS "NON-RECURRING" MONEY (RANGING FROM $90 TO $206 MILLION) EACH YEAR SINCE. BUT THE UNCERTAINTY OF IDENTIFYING "ONE-TIME" FUNDING SOURCES TO MEET RECURRING COAST GUARD FUNDING NEEDS DISRUPTS STRATEGIC AND OPERATIONAL PLANNING. THIS UNCERTAINTY WAS AGGRAVATED IN FISCAL YEAR 1988 AND AGAIN IN FISCAL YEAR 1989, WHEN THE COAST GUARD HAD DOD SERVICES-IN-KIND SUBSTITUTED FOR ACTUAL FUNDING. THIS IS NOT THE WAY TO RUN AN OPERATING AGENCY, ESPECIALLY ONE THAT PROVIDES SUCH A VARIETY OF CRITICAL SERVICES TO THE AMERICAN PUBLIC. BUT, ON THE OTHER HAND, THE DOD SERVICES-IN KIND AND FUNDS WERE, ON SEVERAL OCCASIONS, ESSENTIAL TO OUR EFFECTIVENESS.

LET ME TRY TO PUT THIS IN PERSPECTIVE. IN FISCAL YEAR 1988, THE COAST GUARD WAS INITIALLY FACED WITH A $103 MILLION SHORTFALL IN ITS OPERATING EXPENSES APPROPRIATION. WE HAD THAT SHORTFALL, EVEN THOUGH WE RECEIVED $105 MILLION IN SERVICES-IN-KIND FROM DOD AS A REPLACEMENT FOR ACTUAL FUNDING FROM THE DEPARTMENT OF TRANSPORTATION APPROPRIATION. THE SHORTFALL FORCED A TEMPORARY 55% REDUCTION IN LAW ENFORCEMENT PATROLS, A REDUCTION IN PERSONNEL OF MORE THAN 1,000, DECOMMISSIONED CUTTERS AND CLOSED SEARCH AND RESCUE STATIONS AND NUMEROUS OTHER COAST GUARD OPERATING AND SUPPORT UNITS. WITHOUT THE DOD SUPPORT AND THE CONGRESSIONAL APPROVAL OF AN EMERGENCY SUPPLEMENTAL, THE NECESSARY ADDITIONAL CUTBACKS WOULD HAVE BEEN CRIPPLING.

OUR FY 1990 BUDGET REQUEST INCLUDES, AS PART OF OUR OPERATING EXPENSES FUNDING BASE, THE $200 MILLION THAT WE ARE RECEIVING FROM THE DOD APPROPRIATION IN 1989 ($60 MILLION IN FUNDING AND $140 MILLION IN SERVICES-IN-KIND). I APPRECIATE THE

SUPPORT OF THOSE WHO RECOGNIZED OUR NEED AND WORKED TO INCLUDE FUNDS IN THE DOD APPROPRIATION FOR THE COAST GUARD. HOWEVER, MY POSITION AND THAT OF THE ADMINISTRATION IS THAT FUNDING FOR THE COAST GUARD BELONGS IN THE DEPARTMENT OF TRANSPORTATION APPROPRIATION BILL. WITH CONGRESSIONAL REPORT LANGUAGE LAST YEAR STATING THAT FY 1989 WOULD BE THE LAST YEAR THAT DOD WOULD PROVIDE FUNDS TO THE COAST GUARD, WE ARE INCREASINGLY APPREHENSIVE ABOUT THIS $200 MILLION. AS THE BUDGET COMMITTEES MAKE THEIR SECTION 302A ALLOCATIONS, AND THE APPROPRIATIONS COMMITTEES MAKE THEIR SECTION 302B ALLOCATIONS TO THEIR SUBCOMMITTEES, IT IS CRITICAL THAT THIS $200 MILLION BE ACCOUNTED FOR IN FUNCTION 400.

ACQUISITION CONSTRUCTION & IMPROVEMENTS (AC&I)

BETWEEN FISCAL YEARS 1982 AND 1989, WE HAVE RECEIVED $1.26 BILLION FROM DOD FOR OUR ACQUISITION, CONSTRUCTION AND IMPROVEMENTS PROJECTS, OUR CAPITAL ACCOUNT - AN AVERAGE OF $157 MILLION PER YEAR. WITHOUT THIS DOD SUPPORT, OUR AVERAGE AC&I FUNDING LEVEL WOULD HAVE BEEN APPROXIMATELY $304 MILLION, LESS THAN I BELIEVE WE NEED TO RENEW OUR $16 BILLION CAPITAL PLANT.

THE LIST OF COAST GUARD PROJECTS PARTIALLY SUPPORTED WITH THE AC&I FUNDING WE RECEIVED FROM DOD IS QUITE LENGTHY. VIRTUALLY ALL OF OUR MAJOR CUTTER, AIRCRAFT AND COMMAND CONTROL & COMMUNICATIONS PROJECTS DURING THIS DECADE HAVE BEEN SUPPORTED, AT LEAST IN PART, BY DOD AC&I FUNDING.

AGAIN, HOWEVER, THE UNCERTAINTY OF SUCH FUNDING AND, FREQUENTLY, ITS EARMARKINGS ARE DISRUPTIVE TO EFFECTIVE STRATEGIC PLANNING.

SUMMARY

THE COAST GUARD HAS NOT BEEN FULLY FUNDED CONSISTENTLY WITHIN THE DEPARTMENT OF TRANSPORTATION FOR MANY YEARS. CONGRESS HAS, INSTEAD, TURNED TO OTHER SOURCES TO SUPPLEMENT OUR APPROPRIATION. DOD HAS BEEN THE PRIME CONTRIBUTOR IN MAKING UP OUR BUDGET SHORTFALL.

IT'S TIME TO SOLVE THE PROBLEM ONCE AND FOR ALL. THE RECURRING NATURE OF THIS ANNUAL "BAILOUT" CALLS OUT FOR A PERMANENT BUDGET SOLUTION - ONE THAT PROVIDES FULL COAST GUARD FUNDING WITHIN THE DEPARTMENT OF TRANSPORTATION. I ASK FOR THE LEADERSHIP AND SUPPORT OF THIS COMMITTEE IN HELPING TO RESOLVE THIS PROBLEM.

WE NEED ALL OF THE MONEY THE PRESIDENT IS ASKING FOR IN THE COAST GUARD BUDGET REQUEST. OTHERWISE, WE HAVE NO CHOICE BUT TO RESIZE THE COAST GUARD ACCORDINGLY. THAT'S NOT SOMETHING WE WANT TO DO. WE DON'T THINK THAT'S WHAT THIS CONGRESS OR THE AMERICAN PEOPLE WANT.

I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU OR THE OTHER MEMBERS OF THE SUBCOMMITTEE MIGHT HAVE.

DEFENSE FUNDING OF COAST GUARD

Mr. MURTHA. One of the problems we have this year is everybody is looking at the Defense budget for extra money. They want to take money out for everything you can think of; $100 million out for FMS, $100 million out for the U.N. Peacekeeping Force. They keep cutting away at money that is vital to defense and we are going to have a problem funding defense the way it is.

We will make some adjustments in what the President asks for, and we will try to make the allocations appropriately to the various services.

I am sure with supporters like Mr. AuCoin you won't have a problem getting additional money from this Committee, but this is a difficult year and you should be funded from the Transportation Committee because there is such stress on the Defense budget.

We are looking at an increase in category IV recruits, less recruiting and training money, and we are going to have to take money from programs which are important and redistribute what the President has asked for to fund defense and it will still not be adequate. In the past we have been able to find money to put in for the Coast Guard and it has been painful, but this year it is going to be particularly difficult.

I appreciate what you are saying and I agree with you it should be done through the Transportation Committee, but we will do everything we can to find the money.

Of course, I say that because it is like getting in front of a tiger—you get on his back and you don't want to be thrown off.

This Committee is so supportive of the Coast Guard, led by Mr. AuCoin and Mr. Conte, that I couldn't deny it even if I wanted to.

We will yield to Mr. AuCoin now.

Mr. AUCOIN. Mr. Chairman, I appreciate you yielding.

I just wanted to say how grateful Mr. Young, Mr. Conte, and I are about the understanding you and the rest of the committee members have displayed when dealing with the plight of the Coast Guard, after they have been given "short shift" by the Transportation Appropriations subcommittee.

I appreciate Admiral Yost saying to us today how disgusted he is with this situation. I think that what he is saying is that he has been put in that position.

Admiral, your testimony today is that you don't want to be here, you don't want these funds from this subcommittee, you want the Transportation subcommittee to live up to its responsibilities; isn't that correct?

Admiral YOST. That is true.

Mr. AUCOIN. I certainly agree and I hope that we can put some 302b pressure on all of our colleagues on the subcommittees to try to get an allocation that covers the Coast Guard's needs in Transportation.

Failing that, given the magnitude of the cuts you would have had in the past, I would have to still be supportive of you here if, in the last analysis, it came to that.

I don't want to take Mr. McDade's time, but I wanted to tie in on the comments you made, Mr. Chairman.

Mr. MURTHA. Mr. McDade?

TRANSPORTATION SUBCOMMITTEE RESPONSIBILITIES

Mr. MCDADE. Thank you.

There is a Republican Caucus ongoing with the President and much as I admire the Coast Guard, there are some places I have to be, but I wanted to be here to reinforce what my colleagues have said.

We will have a difficult time with our own requirements. But we applaud you on the work the Coast Guard has done in the past and is doing now.

We are down to a terrible money crunch and we need to see our colleagues from Transportation come along. No more asterisks in Committee reports saying "To be funded." We can't afford that.

I am glad to see you before us. We feel we should have had you up for discussions for a lot of years. We are interested in your work and want to cooperate with you and want the Transportation subcommittee to cooperate with us as well.

Admiral YOST. Thank you. It seems like the place to start getting their cooperation is in the 302a's. If they are not allocated enough money, it is difficult for them as well.

Mr. MCDADE. Last year, you recall the asterisk in their Committee report. They appropriated your budget to the extent of about $1.4 billion, something like that. They said in an asterisk, "conditioned upon" our Committee providing over half a billion dollars, which we subsequently were able to work out.

Admiral YOST. Yes, you were.

Mr. MCDADE. So they just kind of passed it over here.

We were able to do it then, but we are going to have a heck of a time doing that this year.

ALLOCATION OF FUNDING

Mr. AUCOIN. Will the gentleman yield?

What this Committee needs to do in order to help the Coast Guard and prevent this situation from happening, is to weigh in when those allocations are divided up in the full Committee. One of the problems the Transportation subcommittee has is they have been dealt a deck that is pretty short to cover the FAA and all their problems. We do not agree with the decisions they have made, but given a short deck, they have resorted to that. They could use our help, I think, in getting a larger slice.

Mr. MCDADE. There is no reason for them to put asterisks.

Mr. AUCOIN. We need to be alert when the allocations are made in full Committee.

Mr. MCDADE. We have tried to do that over the years and have sent messages back to our colleagues on Transportation saying this process has to be cured. During allocation time I will be there with you.

Whatever we need to do, we will work together to try to solve this problem, but we can't see it as an asterisk in the Appropriations bill to be funded later.

COOPERATION BETWEEN COAST GUARD AND DEFENSE

Mr. MURTHA. One of the problems we have is on the domestic side. The Committee feels it needs this money out of defense in order to put it in the domestic side so it is a real problem and we have a really delicate situation this year.

Have you had any problems with cooperation from defense and the money being transferred and the equipment you need is being bought?

Admiral YOST. No. I thought we would have, not because of reluctance on Defense's part, but because of the bureaucracy.

The Navy was the agent for DOD in this regard. The Comptroller of the Navy did a marvelous job in working with us to see that we got our money easily, without a lot of paperwork. It worked fine.

Mr. MURTHA. Mr. Dicks?

ALASKAN OIL SPILL

Mr. DICKS. Thank you, Mr. Chairman.

Admiral, I want to welcome you and I want you to know that I agree with your approach to this, and that is that we need to address this in the 302 allocations between the subcommittees, and that seems to me to be the most appropriate way to do it, because if you don't do it that way, then there is all the planning uncertainty and everything else; the Coast Guard doesn't know where it is going to get the money, and you have been forced to accept earmarking of those funds which also, I am sure, has caused concerns.

We had a chance to discuss the oil spill activities of the Coast Guard at the Transportation hearing earlier this year.

You know, I am just curious, beyond—if you have anything you would like to say regarding what you found up in Alaska and how is that going to affect your budget this year and the Coast Guard responsibilities in this area, equipment, those kinds of things?

Admiral YOST. We are spending a lot of money in Alaska on a daily basis. We are not asking, "where is this money coming from?" It is a national disaster, and we are just there.

At last count, we had 6 ships, 10 or 12 aircraft, and a thousand people on the scene.

Exxon is being billed for this on a fully reimbursable basis.

Mr. DICKS. Are they paying?

Admiral YOST. They have been up to the last couple of weeks.

Now there is some question about whether they want to continue paying on a fully reimbursable basis versus a marginal basis.

So the payments have stopped, at least temporarily, while this gets sorted out at a very high level within the Administration and the Congress, but we are spending a lot of money there. It is a good example of our multi-mission capability.

The equipment there is not funded for that; the buoy-tenders, the high-endurance cutters, the aircraft and helicopters are not funded by this Congress to clean up an oil spill.

Right now they are there cleaning up the oil spill, and that gives this country an added dimension in a Coast Guard that is extremely flexible.

CONTINGENCY PLANNING

Mr. DICKS. Is the Coast Guard developing contingency plans for better coordination in the event of a similar future situation?

Is that encompassed in the legislation that has been recommended to the Congress?

Admiral YOST. There have been several pieces of legislation recommended, all having to do with contingency planning. I don't know what will be passed or what ought to be passed.

I hope that Congress makes a major effort in sorting that out because it is easy to have a spasm response to this thing and do something that isn't probably in the long run good for us. But right now, there are no major bodies of water for which a contingency plan is required.

Contingency plans are required for terminals. They are not required for bodies of water. Contingency plans are required from companies who operate these terminals.

Prince William Sound was the one place in the world that we had a contingency plan for the Sound, and that was due to the State requiring it from Alyeska.

As a condition of their permit, they had to have a plan for the Sound. The plan was required by the State and reviewed by the State. It was not required or reviewed by the Federal Government, and ultimately it didn't work so well once executed.

Whether it makes sense to have contingency plans for major bodies of water like Puget Sound or San Francisco Bay or even the smaller bodies of water, like Chesapeake Bay or Delaware Bay, I don't know.

Mr. DICKS. So you are saying we do not have a Puget Sound-wide contingency plan now, all we have is a plan that deals with the refinery at Cherry Point?

Admiral YOST. Yes.

Mr. DICKS. What about Tacoma?

Admiral YOST. There are terminals there.

Mr. DICKS. Are there contingency plans for those terminals?

Admiral YOST. The Captain-of-the Port at each area would have a contingency plan.

It is really a list of assets that are available; who has skimmers, who has boom, who you can call to get a dump truck, a backloader, that kind of thing. It includes a list of local agency officials with responsibility for oil spills responses—people, Federal EPA, Federal NOAA.

There is no equipment required for that plan. In other words, you don't do a plan and say for Puget Sound, we need 30 major skimmers or a sea boom. There is no plan that has that, and even if there was, there is nobody that would fund such a thing.

There is nobody that has the requirement to fund it. If this Congress were to pass a law that said the Coast Guard is responsible for a contingufency plan for Puget Sound, then I think I would want the money to buy the equipment, to stockpile it, and to train the Coast Guard men and women to run it and the command and control.

I don't know whether I would ask you for $20 million or $50 million, but it is real money. Multiply that by the eight or nine other bodies of water who would want equal billing. It is significant.

FAST RESPONSE-STRIKE TEAMS

Mr. DICKS. Is there a way to do it? You have had a National Response Team, one on the West Coast and one on the East Coast.

Admiral YOST. Yes.

Mr. DICKS. Obviously it would be pretty hard to get all that equipment up to Alaska in a timely way.

Admiral YOST. We got it up there in a timely way.

Mr. DICKS. Let's say we pass a major oil spill liability fund and create some assets, some money.

We say okay, let's purchase some equipment and have a West Coast site and an East Coast site and then we will move it if there is a problem in California, if there is a problem on the Columbia River, if there is a problem in Puget Sound or in Alaska. Maybe you would spread it out, part of it in Alaska, part on the West Coast of the lower United States and some on the East Coast, maybe some in the Gulf. Maybe have four locations and you would spread it out. Then you could have some equipment pretty close and then move the rest of it when you have a problem. Something like that might work better than what we have now.

Admiral YOST. I am reminded of the television commercial I see about the Italian spaghetti sauce. The guy says it is in there, look at the jar.

Mr. AUCOIN. What is that?

Admiral YOST. It is in there—the Italian sauce that is in the jar and the guy says, "I want oregano in it. It is in there."

We have exactly that, or we had it before the 1988 budget cut when I did away with one strike team and kept the others.

We had equipment stockpiled—air deployable equipment. Some of the equipment was put at various locations throughout the country.

Mr. DICKS. But you had to cut that out?

Admiral YOST. Sure. We cut back one whole strike team in 1988.

Mr. DICKS. Your timing was beautiful.

Admiral YOST. No, it wasn't my timing. It was the timing of the Congress that was beautiful; my Appropriations Committee.

Mr. DICKS. Did you ask for it in your budget?

Admiral YOST. Sure.

Mr. DICKS. And it was cut by the Transportation Appropriations Committee?

Admiral YOST. It wasn't cut out. It wasn't put in there.

Mr. DICKS. Your asked for it, but OMB didn't put it in?

Admiral YOST. No.

Mr. AUCOIN. Did the budgets that came to the Congress contain that?

Admiral YOST. Yes. We had the strike teams for years. We took out 30 units in the Coast Guard of which that was one.

Mr. DICKS. What happened? Did Congress specifically cut it out or did you get a cut and you had to make choices——

Admiral Yost. I took those things that in my view were things that I could take out easiest, were the least priority.

I had three strike teams. I reduced to two. It was that kind of a thing.

Mr. Murtha. So if you had this strike force in place, would that have helped you in Alaska?

Admiral Yost. I don't think it would have made a big difference. We had the strike team in the Pacific. What has changed is the Atlantic. If the spill had occurred in New York Harbor, it might have made a difference.

Mr. Dicks. What are you recommending?

Admiral Yost. I recommend to start with a full budget for the Coast Guard each and every year instead of this up and down where we don't know what we are going to get until the last minute.

As far as the strike team goes, I think we need to look at the equipment that we are now stockpiling at the strike teams, to be sure it is state of the art and fully funded.

We have about 40 people at each team. Do we want more? Do we want more strike teams?

STOCKPILING EQUIPMENT

Mr. Dicks. If we create a trust fund of some sort or an oil liability fund, are you suggesting that we ought to buy some equipment?

Admiral Yost. I am suggesting if you want a contingency plan for Puget Sound, then to make the plan a good one, you may want to have equipment stockpiled in Puget Sound. Every other place does. The people that I have been talking to want the equipment right there. I am saying if you do that, then you have to put the people with it and that costs money. I recommend that we continue stockpiling our strike teams in the two areas we have them now. You might want to expand it.

Mr. Dicks. Is there any money in this budget for stocking the strike teams?

Admiral Yost. No.

Mr. Dicks. Should there be?

Admiral Yost. No. I am not asking—the Administration isn't asking for that.

Mr. Dicks. I understand that. I asked you if, in your personal and professional opinion, based on what you found out running this oil spill cleanup, should there be money, for example, for major skimmers?

It is a disgrace that we have to turn to the Soviet Union for a significant skimmer.

Admiral Yost. Well, that is probably true.

Mr. Dicks. We ought to have a couple of skimmers; big ones.

Admiral Yost. That is not the only place we have to turn to the Soviet Union for help. If we want whales out of Alaska, I turn to them for help as well. Let's not knock it.

OIL SKIMMERS

Mr. Dicks. Based on this experience, don't you think we need a couple decent sized skimmers for these contingencies?

Admiral YOST. Let me talk about skimmers.

The Navy Supervisor of Salvage, United States Navy, has a number of skimmers. We have never asked for or funded skimmers because we said the Navy has them; we will use them.

The Navy has never funded high-sea skimming boom because I think they have said the Coast Guard has it; if we need it, we will ask for it.

So we trade the equipment back and forth.

Mr. DICKS. Did we use those Navy skimmers?

Admiral YOST. Yes. We flew them up there in Air Force C-5's. They are the 40-foot mono-hull skimmers with a crew of three people.

Mr. DICKS. How much capacity do they have—capability?

Admiral YOST. I think they rate them at something like 700 barrels an hour.

Mr. DICKS. What was the Soviet skimmer capability?

Admiral YOST. That was a huge skimmer. That was a 400-foot ship. What it was rated at and what it did was a long way apart, too. It didn't do anything.

Mr. DICKS. If we had had a skimmer of that size there immediately when the oil was together, it could have had a great effect.

Admiral YOST. Yes. The State of Alaska is requiring Alyeska to purchase a skimmer of that size, and they are getting it from the Soviets. They asked for a waiver of the Soviet vessel for the Jones Act until we can produce a Jones Act skimmer of that size.

Mr. DICKS. Are they going to buy one?

Admiral YOST. They are going to lease it. The Soviets would like to make a buck; therefore, we have prepared the Jones Act waiver.

PURCHASE OF EQUIPMENT

Mr. DICKS. So you do believe that there ought to be some additional equipment identified——

Admiral YOST. Everybody in the United States feels that there wasn't enough equipment readily available to go to Prince William Sound. If there is another spill like that in Puget Sound or Boston Harbor, we are going to have the same problem. Therefore you would need more equipment. Whether it needs to be funded federally through the Coast Guard or through private funds or user fees or something else is above my pay grade.

Mr. DICKS. That is up to Congress.

Could you give us a list of what you would like to see, if you were going to supplement what we have now in the Pacific Strike Force and the Atlantic Strike Force? Could you give us a list of the equipment that you would like to see purchased?

Let us worry about how we are going to authorize it; what funds it will be taken out of, how it is done.

Let us know what you think is necessary for the Pacific and the Atlantic, based on what we have seen in Alaska.

[The information follows:]

It is the Coast Guard's policy to ensure that the spiller takes full responsibility for the incident within the full extent of the law. This policy encourages the spiller to utilize private contractors for cleanup operations and keeps the Coast Guard out of direct and open competition with those contractors. The Coast Guard has the capability needed to conduct monitoring operations, and the Strike Teams have the specialized equipment to augment private industry when the need arises, and to initiate response when a spiller is unknown or is unwilling or unable to conduct an adequate response.

The Strike Teams are currently responsible for training of Marine Safety Offices, as well as pollution response. The response equipment also requires full preventative maintenance commitment. The teams simply do not have sufficient personnel to meet all their commitments. To accomplish these tasks with a high degree of effectiveness, the personnel complement of both teams would have to be increased by 30-35 percent.

It would be advantageous to stage Strike Team equipment at various points across the United States to allow for quicker initial response. This would require the construction of facilities for storage and maintenance. Examples of such equipment would be the Coast Guard Skimming Barrier System, updated pumping systems for offloading grounded tankers, and several mission specific tank barges (not presently in the National Strike Force inventory), which would provide receptacles for the oil collected by skimmers.

The Strike Teams could also use new and upgraded equipment. Specifically they need an upgraded version of the pumps used to offload stricken tank vessels, and the procurement of an easily moved communications system that has more than line-of-sight capabilities. They would also like to investigate the procurement of some mission-specific tank barges of 25,000 barrel capacity. These would provide reception facilities for collected oil and debris. This would ease an ongoing problem during most major spills.

The National Strike Force is often used to monitor the spiller's efforts during clean-up operations. It would be advantageous to update their existing computer systems to increase these monitoring capabilities.

RESOURCE REQUIREMENTS

	Recurring	Nonrecurring	Total
Fiscal year 1990:			
Personnel (+20)	$800,000		$800,000
Maintenance	1,500,000		1,500,000
Equipment		$3,500,000	3.500,000
Fiscal year 1991:			
Personnel (+20)	800,000		800,000
Maintenance	1,500,000		1,500,000
Equipment		3,500,000	3,500,000
Outyears:			
Personnel (+20)	800,000		800,000
Maintenance	1,500,000		1,500,000

Mr. MURTHA. With the caveat we are not going to get involved——

Mr. DICKS. I think it would be helpful if you could supply that to Mr. Lehman's committee, too, because that is probably where things will wind up having to be decided.

Mr. MURTHA. Mr. Hefner.

Mr. HEFNER. I would like to reserve my time.

Mr. MURTHA. Mr. AuCoin.

IMPACT OF FUNDS PROVIDED BY DEFENSE

Mr. AUCOIN. Thank you, Mr. Chairman.

Admiral, I just want to reiterate what admiration I have for you, managing your Service as you have, which I think has been with dignity and honor and a heck of a lot of élan, under incredible, up-and-down, rollercoaster treatment from the Congress.

I appreciate everything you have said today. I appreciate the expression of gratitude you have given to this Committee for stepping up when other Committees haven't done the right thing. If we hadn't, I think we would have left your service in abysmal shape.

I wonder if you could indicate what would—where would the Coast Guard be if the fiscal year 1989 transfer from this Committee had not happened.

Admiral YOST. Yes, sir.

Mr. AUCOIN. That is not, of course, the first time you received money from defense, but take 1989 for an example.

Admiral YOST. In 1989, we received $200 million, $140 million support-in-kind, and $60 million in cash in OE.

What it means is this. In order to accommodate in 1988 a $40 million cut, we closed 30 Coast Guard stations; including air stations, ships, and shore stations.

If we were to have to save $200 million in 1989, we would have to get rid of 4,000 Coast Guardsmen. That is over ten percent of our force. That means we would have to cut about ten percent of our ships and stations. It would mean something in excess of 60 to 100 Coast Guard stations up and down the coast, air stations and ships would be closed.

It would be absolutely devastating, and I think that it would cause such a ruckus in this House, as well as in the Senate, that money would be reprogrammed in some way.

It is just unthinkable, if we hadn't gotten that $200 million.

FISCAL YEAR 1990 ICEBREAKER REQUEST

Mr. AUCOIN. This year your budget calls for $277 million for an icebreaker.

Admiral YOST. Yes, it does.

Mr. AUCOIN. Is there a DOD dual capability in the mission of that icebreaker—in other words, is there a military application here?

Admiral YOST. Yes. Icebreakers are written into the war plans of this country. The war plans require a total of four icebreakers—well, that can be argued, but in the vicinity of four icebreakers. So this icebreaker will be very definitely a part of the war plans of this country.

The question on an icebreaker is simple; do we as a country want to operate in the Arctic and the Antarctic or don't we? If we do, for military reasons or foreign relations reasons or scientific reasons, then we have to have four icebreakers.

Mr. AUCOIN. You are speaking militarily?

Admiral YOST. Yes. We need four icebreakers. We have two. This one in this budget would be the third one.

OIL SPILL EQUIPMENT

Mr. AUCOIN. Let me talk about the equipment that you are using up in Prince William Sound and dovetail with the questions my colleague was asking.

What kind of equipment are you using up there to fight that oil spill? You can't enumerate all, but give us a sense for the record of the kind of equipment you are using.

Admiral Yost. To give you an idea, of what is up there, we have one 378-foot high endurance cutter, the *Rush*, anchored in the vicinity of Seal Island, 150 personnel.

Mr. AuCoin. Is that the class of cutter that is going through the FRAM—Fleet Rehabilitation and Modernization?

Admiral Yost. Yes.

Mr. AuCoin. That is being deployed in Prince William Sound?

Admiral Yost. Yes.

Mr. AuCoin. Have any of the DOD funds this Committee has provided gone to the funding of that FRAM process?

Admiral Yost. Yes, $133 million of that process came from DOD money.

Mr. AuCoin. Did the gentleman from Washington hear that in terms of the equipment being used in the strike team in Prince William Sound, the lead vessel is a 378-foot-high endurance cutter. That cutter is a part of the FRAM funding for retrofitting and upgrading that a class of 12 cutters are now going through and the Admiral said that the financing of that FRAM process has in part been funded by the funds this Committee has——

Admiral Yost. $133 million came from this Committee.

Mr. AuCoin. So that is a part of this Committee's funding?

Admiral Yost. Yes.

The lead ship, we have two up there, is the Coast Guard Cutter *Rush*. We have a medium endurance cutter that has 75 personnel on board; a buoy tender, the SEDGE, with 55 personnel.

We have two large helicopters, one small helicopter, and one fixed-wing, side-looking, radar-scanning, fixed-wing aircraft.

FRAM PROGRAM

Mr. AuCoin. Where is that work being done on the FRAM program?

Admiral Yost. In Todd, in Seattle and in Bath in Maine.

Mr. AuCoin. How much of it is being done in Todd?

Admiral Yost. Two-thirds is being done in Todd.

Mr. Dicks. Will you yield? We had some problems on that contract, as I understand it. How have we done on it? Have we got those things straightened out?

Admiral Yost. I am very encouraged about the progress we have made in attitude, our people and Todd's people, working together, and that project is, if not out of the woods, certainly is seeing daylight.

I am very encouraged about it. The quality of work is very good at Todd.

Mr. Murtha. Mr. AuCoin, would you yield to Mr. Livingston?

Mr. AuCoin. Yes.

Mr. Livingston. Thank you.

I apologize. I have to leave—the President is coming upstairs.

I want to congratulate you on the job you are doing. We in New Orleans feel we trained you well and you have been super for the Coast Guard and super for all of us.

I regret the difficulties the Coast Guard has had to go through with their budget over the years. This Subcommittee has been very supportive of you and will continue to be within the limitations that face us.

We would like to see all of our colleagues on the Transportation Subcommittee get their priorities right and support you to the fullest extent that you need that support.

Nothing could illustrate how greatly in need we are of a strong and viable Coast Guard better than that accident in Alaska, and so we wish you the best.

Keep up the good work.

I have some questions for the record I would like to submit, particularly in asking you to compare the 1990 budget request with your current services budget and a few other questions, but I will ask you to reply to those for the record, please.

Admiral YOST. All right.

Thank you very much, Mr. Livingston. It is nice to see you, sir.

[CLERK'S NOTE.—Questions submitted by Mr. Livingston and the answers thereto follow:]

COAST GUARD FUNDING LEVELS

Question. In constant fiscal year 1989 dollars, Coast Guard funding—including DOD input—has decreased by over $300 million from 1984 to 1989. What has been the impact of reduced Coast Guard funding?

Answer. The decrease to which you refer encompasses all Coast Guard appropriations.

[In millions of dollars]

Fiscal year	Total budget authority enacted	Total budget authority enacted constant dollars
1981	$2,034	$2,745
1982	2,525	3,181
1983	2,455	2,971
1984	2,779	3,247
1985	2,592	2,927
1986	2,661	2,931
1987	2,930	3,158
1988	2,673	2,773
1989	3,104	3,104

However, the appropriations that have been impacted most severely are the Operating Expense (OE) and the Acquisition, Construction and Improvement (AC&I) Appropriations. Also of note is the relative peak in total budget authority (constant $) in 1984. From 1981 to 1989, an increase in constant dollars is shown. None-the-less, Department of Defense (DOD) funding has been provided to the Coast Guard since 1982 in AC&I and since 1986 in OE, each time on a non-recurring basis. While I welcome DOD funding in the absence of Transportation funding, the process limits our planning flexibility; we can't count on the DOD funds until the last moment in the appropriations process. Additionally, Department of Defense funding cannot be considered as a supplement to Coast

Guard funding, but is really a "backfill" to Transportation funding shifted away from the Coast Guard to other Department of Transportation agencies.

The impact of inadequate Coast Guard funding has been: First, our AC&I program has lagged to the point that much of the Coast Guard's capital plant is in serious need of repair or replacement (particularly our older vessels and shore facilities); and second, we have necessarily had to use our Cost of Living Allowance (COLA) to "buy out" problems caused by insufficient funding in specific program areas, particularly Congressionally mandated payraises.

Question. What is your fiscal year 1990 budget request and how does it compare with your current services budget?

Answer. For comparison purposes, the Coast Guard's fiscal year 1990 budget request is $3,468,880,000 and the current services budget is $3,043,480,000.

Question. Do you believe this budget request is adequate to support the Coast Guard's mission requirements?

Answer. The President's fiscal year 1990 budget request is adequate for current Coast Guard needs. It continues a trend of no substantive real growth that has spanned the last 6 fiscal years, but if approved as requested, no programmatic reductions will be required.

The President's request is really quite modest. Discounting the polar icebreaker, the budget includes no real growth over 1989. Over 98 percent of the Operating Expense request ($2.25 billion) is needed just to maintain current services. The remaining 2 percent ($40 million) is required to operate new assets scheduled to come on line in fiscal year 1990, mostly for drug law enforcement. The Acquisition, Construction and Improvement (AC&I) Appropriation is held at the fiscal year 1989 enacted level plus a replacement polar icebreaker.

The Coast Guard budget is stretched thin. The Coast Guard cannot continue to operate at current levels with less than the requested funding.

PATROL BOATS

Question. Admiral, I have talked about this before with you, but I understand there still is a shortfall of Coast Guard patrol craft. Is this accurate?

Answer. Yes. My operational commanders indicate that to meet existing operational demands additional patrol boat resources are required. The exact number of patrol boats needed is currently being studied.

Question. What is the actual shortfall and how can we address it?

Answer. The present requirement of 96 patrol boats was established as a result of the "candidate craft study" and is currently being met. However, a re-validation is being conducted and should be completed by mid-August. Preliminary indications are that to meet operational program demands, more than 96 patrol boats will be required. Both long-term and short-term shortfalls would be addressed upon completion of this study.

Question. I understand that the new Heritage Class patrol craft will meet your needs down the road, but isn't there still a short term gap? Please explain.

Answer. Yes. Delays in the Heritage Class project have created a temporary patrol boat gap in the 1990s. The Point Class patrol boats will reach the end of their service lives shortly. We would experience a peak shortfall of 28 patrol boats in 1996 and 1997 below the currently established patrol boat level (96 patrol boats). Assuming that each Point Class patrol boat is decommissioned at the end of its 30 year service life, the patrol boat gap would be as follows: 1990, −3; 1991, −6; 1992, −19; 1993, −22; 1994, −22; 1995, −27; 1996, −28; 1997, −28; 1998, −19; 1999, −13; 2000, −1.

Question. How can we address this gap, since the Heritage prototype is just getting off the ground?

Answer. Presently, we plan to bridge that gap by expending operating expense funds to perform select maintenance to extend the service lives of the deteriorating Point Class WPB's without performing major renovations. However, this alternative may not be economical, and the risk exists that many cutters may have uncorrectable deficiencies. While an option does exist to procure 16 additional Island Class patrol boats, funds are currently not available to exercise this option.

AEROSTAT PROGRAM

Question. The conference report to the fiscal year 1989 Defense Appropriations bill concurred with the authorizing committees on the need to stop the flow of illegal narcotics along our southern border and the importance of Aerostat radar systems as effective surveillance assets. In a subsequent report to Congress, the Defense Department indicated some intention of possibly requesting a reprogramming of fiscal year 1989 funds to address the southern border Aerostat radar gap. Given your role in the interdiction effort, can you tell us what is the status of efforts to fund this program? Please provide details.

Answer. Though the final rcommendations of the Department of Defense are not known, the Coast Guard understands that they will recommend a mix of Land Based Aerostats (LBAs) and Platform Based Aerostats (PBAs) to fill the surveillance gap along our southern border. We anticipate that an LBA will be funded for Great Inagua, Bahamas, and that the relocation of the Air Force's LBA at Cape Canaveral to the Venice, FL area is also included. A combination of LBAs and one PBA will cover the Gulf of Mexico.

Question. I understand that Aerostat surveillance systems are uniquely suited to provide continuous monitoring of the border region because of their low cost and effectiveness in providing round the clock radar coverage. How would you describe the Coast Guard's experience with Aerostat systems? Can you provide any data that confirms the effectiveness of the program?

Answer. The Coast Guard has operated Sea Based Aerostats (SBAs) since 1985 and assumed operations of the Land Based Aerostat (LBA) on Grand Bahama Island (CARIBALL I) during July 1989. Indications are that both systems provide a real deterence and that the smugglers are altering their transit approaches to the

United States depending upon the location and operations of these Aerostats. However, without a continuous curtain of Aerostat systems along our southern border, the smuggler can go around our individual units.

Since April 1987, target data provided by SBAs has resulted in the seizure of 19,430 pounds of marijuana, 2,683 pounds of cocaine and the apprehension of 696 illegal aliens. Four other vessels have also been seized for fisheries and other law enforcement violations. LBA target data from our first site has led to 23 arrests and the seizure of 9 aircraft and 1,225 pounds of cocaine.

Question. Please provide for the record the specific drug interdiction assets that the Coast Guard requires for fiscal year 1990. Do these assets include funding for additional sea based aerostats beyond the five existing systems? If not, why not?

Answer. The Coast Guard's fiscal year 1990 budget request does not include any additional assets exclusively dedicated to drug law enforcement, with the exception of those initiatives identified with the Bush Administration's $10 million amendment to the original submission (details concerning which have been provided for the record). The fiscal year 1990 Budget specifically, does not request funding for more Sea-Based Aerostats (SBA's). The last of our five SBAs is just now becoming operational. With these five, our immediate needs in this area will be met.

[CLERK'S NOTE.—End of questions submitted by Mr. Livingston.]

Mr. MURTHA. Mr. AuCoin?

IMPACT OF FUNDING FROM DEFENSE

Mr. AUCOIN. Admiral Yost, this fiscal year, you have the benefit of $140 million in-kind services from the Navy.

Can you tell the Committee what these funds are going towards and what the impact would be without those funds?

Admiral YOST. $140 million in 1989, I will give you a breakdown in about five or six categories:

Supplies, including fuel, $67 million;

Medical services, $60 million;

Ammunition, $5.5 million;

Light-weight supportable SONAR, which was a line item, $5 million; and

Chaplin's service, $1.7 million, for a total of $140 million

Mr. DICKS. The Navy has been praying for you?

Admiral YOST. They have been praying that somehow the Transportation Committee fully funds my needs.

COOPERATION BETWEEN COAST GUARD AND NAVY

Mr. AUCOIN. Has the Navy been good in cooperating with you on this up-to-date?

Admiral YOST. Yes. We took the figure $140 million and said that that is the most we could take in-kind because we just couldn't figure out how to get any more in-kind.

The Navy being the agent for DOD in this matter, the Comptroller of the Navy has done an outstanding job. I thought it was going to be an awful lot of paperwork and red tape, but it wasn't.

They streamlined it. They made it work and he followed it through all the way and we got that $140 million in-kind with little additional paperwork.

Some, but not very much.

IMPACT OF IN-KIND ASSISTANCE

Mr. AuCoin. What would have the impact been—how would you categorize the impact to the Coast Guard if that $140 million had not been available to you?

Admiral Yost. $140 million was merely put into our program budget and we used them against these things because those were the things that we could take in-kind, but $140 million to the Coast Guard means the same as $14 billion to the Department of Defense.

So if you were asked to cut $14 billion from the Department of Defense, that kind of impact is what I have with $140 million.

If you hadn't found that $140 million for me, I would have been—I couldn't handle that kind of a budget cut. You can't get there from here. There is no way of accommodating it.

Mr. AuCoin. I think that is important testimony, because this Committee, because of what our mission is, to fund all the other Services, $140 million doesn't sound like much. That is the reality of the work we do, but I think it is important to have your characterization of how big a hole budgetarily that would have been in the Coast Guard's mission in dollar terms if it had not been there and I think you have characterized it extremely well.

Mr. Chairman, I don't have any additional questions. I appreciate your understanding and your holding of this hearing.

EXXON'S ROLE IN OIL SPILL CLEAN-UP

Mr. Murtha. There are a couple of things I wondered about, Admiral. We talked about, before the hearing, the oil spill and the cooperation you are getting from Exxon.

Would you like to comment for the record?

Admiral Yost. I would be glad to.

Exxon has probably as good a procurement organization as any major corporation in the world. They have been able to come in there and procure equipment and contract for people in a way that has probably been faster than either DOD or the United States Coast Guard could have done it.

I have discussed this with senior officers in the Corps of Engineers, senior officers within the Navy, and my own senior procurement people, and there is general agreement that Exxon has done a good job in that regard.

Where Exxon has been faulted by me in the past is by not having enough people in their planned response to do the job in a timely manner.

Exxon feels very differently than I do. They feel their plan provided for enough people to do this cleanup this summer, but I didn't have a comfort zone that I could tell the President I was confident they could do it, so I wanted about twice that many people. That is where the problem has come, not their ability to put those people in the field and sustain them, but their view of how many were needed.

Now that we have gotten them to submit a plan, they have agreed to go to 2,500 people on the beach rather than 1,400 people in Prince William Sound.

I am still waiting to see the ramp-up in their plan.

Mr. MURTHA. Is there evidence that they are ramping up?

Admiral YOST. I haven't seen that evidence yet, but neither have they submitted to me their plan of that ramp-up, so it is really hard to check off when you don't have a check-off sheet.

We are now six weeks into the spill. I still don't have a good check-off sheet, milestones, and checkpoints that I can say, "Yes, they are on target" or "No, they are not," and I am pressing very hard for that this week.

Mr. MURTHA. Mr. Hefner?

COMMITTEE SUPPORT OF COAST GUARD

Mr. HEFNER. Mr. Chairman, I don't have any questions. Admiral I just want to congratulate you on the great job that you do and let you know that you have some very good friends on this Committee.

We are very benevolent. We took $50 million out of military construction for the Coast Guard.

Silvio Conte is one of your louder advocates. I guess one of the problems that you have, I don't mean this derogatorily, but you are not sexy enough.

You are saving lives and saving property, sort of like the State Highway Patrol. People just take you for granted. They know if there is a problem, you will be there.

Admiral YOST. I don't know whether I am correct, but I often say the Coast Guard doesn't have any enemies in Congress, but I can only count on maybe two hands the people that will lay down and bleed and die for us in Congress.

You have one of those gentlemen on your left hand, probably on your right; Silvio Conte, Ted Stevens, and I might be able to name and go as high as ten.

That isn't because Congress doesn't like us; Congress does like us, but our Committees, our Appropriations Committees, are Committees that have responsibility for the funding of mass transit within this country. Getting in the ring with mass transit is something like getting in the ring with Joe Louis; you know you are going to get hurt, you just don't know how badly. You know you can run, but you can't hide. It is that kind of a boxing scenario.

COAST GUARD MISSION

I am asked every year by great supporters, like the only Coast Guard officer in the Senate, Senator Pell, and others, "Admiral, do you really want to be in the Committees that you are in? What would happen if we moved you to Defense or Treasury?"

I have always responded, "We don't belong in Defense or Treasury because the portfolio of that Cabinet Secretary does not match the things that the Coast Guard does, and the portfolio of the Transportation Secretary matches very well."

Yet, we have major trouble getting funded within the Transportation Subcommittees in both the House and the Senate, and I don't see how we are ever going to correct that.

I thought after a year or two in this job that all I had to do was talk to everybody about 302a's and 302b's, so I memorized what those were and talked to everybody that had anything to do with them, and their eyes kind of glazed over.

Maybe this Committee ought to ask, "Would we fund the Coast Guard if their entire appropriation was in this Committee?"

I know you don't want to ask that in public; I don't want to either, but I may call you this afternoon.

I am frustrated. I am starting on my last year as the Commandant, so I am not worried about getting fired. I think something needs to be done.

Mr. HEFNER. I was serious when I said that you are probably not sexy enough. If you are talking about a weapon system, like a B-1, a C-17 or a Bradley fighting vehicle, people know about that.

I think that the problem in your committee is that you are competing with people that want to build bridges in their district, upgrade the highways, and they don't see the Coast Guard that much.

They take it for granted that if you go fishing and break down, the Coast Guard will be there, I don't know how you address that.

Admiral YOST. I think we would fare well. We would sit on the same bench with them and talk the same language as one of the five military services.

We don't have any problem with that.

FISCAL YEAR 1990 REQUIREMENT FROM DEFENSE

Mr. HEFNER. I compliment you. I know it has to be very frustrating for you to know you can talk about what we consider a minimal cut in defense would be drastic to you.

Admiral YOST. If we don't get the normal $200 million this year out of this Committee, it would be like shorting the DOD $20 billion. That will be the impact.

It is an impact that is completely unacceptable.

Mr. AUCOIN. That is the percentage——

Admiral YOST. We normally get about $200 million from this Committee.

If we were suddenly not to get the $200 million either in our own Appropriations somehow or from this Committee again, it would be like shorting the Defense budget $20 billion. It wouldn't fly in this country because of the lifeboat stations that would be taken out, up and down the East Coast, West Coast, and the Great Lakes.

We need full funding. We ought to have it in function 400. If we don't get it in function 400, we have to have it from someplace.

We need the icebreaker this year.

ICEBREAKER REQUEST

Mr. AUCOIN. Could you have the icebreaker with a cut of two?

Admiral YOST. It is a line item. I won't have the option of keeping that or taking it out. The budget is passed and it will either have that as a line item or it won't.

Mr. MURTHA. If you had a cut, you might get the icebreaker——

Admiral YOST. It will be two or three years anyway until it is built.

Mr. AUCOIN. Kind of like the jets OMB let you have three years ago that you got and you couldn't use them because you didn't have people or fuel.

You put them in the desert.

Admiral YOST. I have said that I will not submit another budget with an icebreaker in it if we don't get the icebreaker in this budget.

I have submitted the icebreaker for the last three years. It has dropped out at the last moment. In order to accommodate an icebreaker in the budget, I have had to squeeze the whole budget. When the icebreaker drops out, I end up with a budget that I have to support, but it is an extremely austere budget.

I have done it three times. I will make the decision that this country doesn't want to operate in the Arctic and the Antarctic and, therefore, I won't submit funds for an icebreaker.

DOD needs four icebreakers in the war plans.

Mr. DICKS. How many do we have?

Admiral YOST. We have two. We had five up to last year when I decommissioned three of the five because they were over forty years old.

Mr. MURTHA. What does an icebreaker cost?

Admiral YOST. Three hundred million dollars. We have $244 million in this year's budget, and then there will be follow-on.

ASSISTANCE TO COMMERCIAL AND PRIVATE VESSELS

Mr. HEFNER. What percentage of your operating budget would you spend in aiding and assisting commercial vessels in private boats?

For example, it I have a truck, and I am out on the highway and I break down; I have to call somebody to come and tow me in. I am going to have to pick up the cost for that.

What percentage of your budget, covers this type of rescue?

Admiral YOST. Very, very little, and I will tell you why. You have to have search-and rescue stations up and down the coast for the major disaster that nobody else can handle; whether it is an *Exxon Valdez* or the Exxon tanker off of Puget Sound that broke down the other day or whether it is a collision of a passenger ship. You have to have those stations there.

Now, if you ask—let's say those stations don't help anybody except major disasters—what would you save?—very, very little.

It is like having a fire station in town, but you don't allow the fire station to go get Mrs. Murphy's cat out of the tree. You have funded the truck and the people, so you might as well get the cat out of the tree.

So you don't save much by those kinds of decisions of not using it for the outboard motor boat that breaks down.

Mr. HEFNER. You do a considerable amount of that?

Admiral YOST. Twenty-two percent of our budget is in the search-and-rescue area, airplanes, helicopters, ships, stations, men, but very little of that can be saved by not going out and getting mom and pop, whose outboard has broken down Sunday afternoon.

If a private towboat outfit is available, they go out and pull him in. If they are not available, Coast Guard auxiliary pulls him in at no cost.

If it is blowing a gale, snowing, the seas are running 30 feet, the private towboat isn't going to be there and neither is the Coast Guard auxiliary.

The lifeboat station with my Coast Guard people will be there and do the job. You have to keep him there.

Mr. HEFNER. I understand, but still you should be able to make the case that you do need some additional funding because you operate right up against the wall every minute.

Admiral YOST. Yes.

Mr. HEFNER. You are operating on a skimpy budget, but you should be funded well enough that you would have some buffer there when you need it.

Admiral YOST. The buffer is provided by the multimission concept.

Let me use, for example, Valdez. We have ships and aircraft there that aren't funded for that. They are funded primarily for fisheries enforcement, search and rescue, and drug enforcement, but I have stopped doing those missions in order to go to Valdez and do that.

When I have a search-and-rescue case, obviously I pull a guy off drug patrol to do that. We take the top-priority mission and do it and let the others go for the time being.

Mr. HEFNER. That is the point. If you are operating in a perfect situation, that is you have no catastrophes or unusual things take place, you would be okay, but you don't have those kinds of years. You always have something unexpected take place.

Admiral YOST. That is right.

We would be like DOD without a war or without a Persian Gulf or without a Grenada. It is real easy to budget for that kind of thing when you are training.

We are completely different. We have missions in peacetime that require a lot of peaks.

Valdez is a good example. Drug interdiction is another one.

Mr. HEFNER. Thank you, Mr. Chairman.

Mr. MURTHA. Mr. AuCoin?

ICEBREAKER CAPABILITY

Mr. AUCOIN. Just two additional questions, Mr. Chairman. On the question of the icebreaker capability, which you are seeking and which Defense needs, you were in the course of describing the budget pressure on your overall budget and the implications that might have for reaching the full icebreaker capability you require.

Since this is the Defense Appropriations Committee, can you document what the absence of that capability means to our military forces?

Admiral YOST. The U.S. military, which the Coast Guard is a part of, operates in the Arctic and the Antarctic. In order to do that, there is a considerable amount of scientific research that can be done only from icebreakers, and that is in order to support those missions that the DOD does in Arctic waters, including under-the-ice missions.

Mr. AuCoin. Submarine missions and the like?

Admiral Yost. Could be.

Now, in addition to that, we have the DEW line, and the DEW line is an early warning net that must be resupplied in ice-covered waters each year with supplies, and we break in the merchant vessels that resupply the Dew line in the Arctic every year.

In the Antarctic, of course, that is a demilitarized zone—that is not the right terminology—but there are no military missions there.

At the same time, there is a considerable amount of research that can be done only in the Antarctic that has military implications and general scientific implications.

Under the general war plans, icebreakers might be needed if the military mission were done in ice-covered waters or under-the-ice or a vessel operating under the ice in some kind of difficulty.

There is only one way to get in there. That is with an icebreaker.

REENGINEERING OF THE DOLPHIN HELICOPTER

Mr. AuCoin. Fine, Admiral. You know I have been following the reengineering question on the HH-65 Dolphin helicopter. You don't have to answer this in this hearing, but I just want to indicate to you that I am hoping that you will be able to report soon that your talks with the Army regarding the Apache engine and the attempts to get the Dolphin perhaps reengined with the Apache engine in place of that LTS-101 Lycoming engine, that your talks will bear fruit soon.

It has been a long time. You don't have to answer that here.

Admiral Yost. I would like to say this here. The Army has been most accommodating.

Mr. AuCoin. Have they, in fact?

Admiral Yost. Yes. They started out in what I would call a good, stiff negotiating position. Since that time, they have found ways to accommodate us. They have found ways to accommodate the amount of funds we have. We have found ways to reprogram money out of R&D funds and consider this an R&D project. The Army has agreed to accept money in the outyears rather than having the money up front.

We have worked out an accommodation, and I think we are very close to a handshake. We would be able to take one of the HH-65 aircraft, take three engines, and reengine that aircraft with two of them with one spare.

If it works, then we have finally got a solution to what appears to be an endless morass.

Mr. AuCoin. When you say soon, are you talking in weeks or months or what? It has been going on a long time.

Admiral Yost. I am told it requires congressional approval and reprogramming; I thought I was going to be able to slip this by without congressional approval. Apparently not.

We ought to have that reprogramming; it has to go through my department and up here.

So I will answer that for the record.

Mr. AuCoin. Please do.

[The information follows:]

A request for reprogramming of $10,500,000 for the T-800/HH-65A Proof of Concept integration program was approved in August 1989. Funds will be used to join the U.S. Army via Military Interdepartmental Purchase Request (MIPR) to provide for contract administration/procurement, nonrecurring and program engineering, and test flight through the concept demonstration phase for Proof of Concept integration of Army YT-800 preproduction engines on a Coast Guard HH-65 airframe. The MIPR is being processed at this time. Assuming an August 1989 MIPR approval, we expect the first test flight of the HH-65/T-800 aircraft in the fourth quarter of fiscal year 1990. The Proof of Concept integration work is expected to be complete in the Spring of 1991. A key decision point will be reached at that time requiring a determination to proceed with fleet-wide retrofit with T-800 engines or pursue other alternatives.

Mr. AuCoin. You have some friends on this Committee who would like to be advised before you have to take action.

Admiral Yost. Some of our friends on this Committee have been instrumental already more than they know.

Mr. Murtha. We have a number of questions for the record including questions for Mr. Conte and Mr. Young.

The Committee will adjourn until 1:30 p.m. this afternoon. Thank you, Admiral.

[Clerk's note.—Questions submitted by Mr. Conte and the answers thereto follow:]

COAST GUARD MISSIONS

Question. First of all, I'd like to welcome Admiral Yost to this particular subcommittee since he is certainly no stranger to the House Appropriations Committee.

Probably more than any other agency of our Government, your small, peacetime serving, yet combat-ready force is continually engaged in activities that strengthen our national security.

From apprehending drug smugglers and other criminals, rescuing sailors in distress, enforcing boat safety, enhancing waterborne commerce, to cleaning up disastrous oil spills, your men and women prepare for combat every day. I daresay that even the active Navy cannot compete with the day-to-day competence of the Coast Guard in surface skills.

I think we all owe you and your force a very special debt of gratitude as well as special support for your outstanding performance in highly difficult and dangerous set of missions. I want to add my special commendation to you.

Admiral, just so every member here can get a feel for the challenge of your job, both in mission and budget requirements, would you discuss for us all the different agencies you work with and the missions that have been added to your list of missions since 1980. At the same time I would like for you to review the funding increases that have come with these additional requirements.

Answer. The Coast Guard performs many missions involving a wide variety of activities. Our involvement with other agencies of the Government in accomplishing those missions is extensive. Agencies that we work with include:

All other U.S. Armed Services;
Drug Enforcement Agency;
U.S. Customs Service;

U.S. Secret Service;
U.S. Marshal;
U.S. State Department;
U.S. Geodetic Survey;
National Science Foundation;
Defense Intelligence Agency;
Central Intelligence Agency;
Federal Bureau of Investigation;
Occupational Safety and Health Administration;
Environmental Protection Agency;
Immigration and Naturalization Service;
Bureau of Alcohol, Tobacco and Firearms;
Federal Communication Commission;
Federal Aviation Administration;
National Oceanographic and Atmospheric Administration;
Maritime Administration;
American Bureau of Shipping;
Saint Lawrence Seaway Development Corporation; and
National Marine Fisheries Service.

The Coast Guard's mission requirements continue to grow each year. However, resources available to us to carry out those responsibilities have not increased at the same rate. In some instances, the Coast Guard has been provided the operational tools and the manpower needed to perform the new initiatives assigned, and for that I am very appreciative. However, when viewed as a whole, Coast Guard responsibilities have increased significantly over the past decade while resources, particularly personnel, have not kept pace. The Coast Guard's responsibilities in the areas of maritime (surface and air) drug interdiction, migrant interdiction, and maritime defense zone have increased in the last ten years, but personnel levels are now slightly lower than we had in 1980. Compounding the problem we have been forced to absorb part, if not all, of the mandated personnel pay raises passed in recent years. Each time we are forced to absorb a pay raise, a larger portion of our total budget must go to fund non-discretionary expenses, reducing our discretionary spending flexibility. We cannot continue to do that and maintain our current level of service to the nation.

INCLUSION OF COAST GUARD IN DEFENSE BUDGET

Question. As you know and as we all know on this subcommittee, in five of the last six years substantial funding has been provided for the Coast Guard from the allocation for defense to make up for shortfalls in funding requests.

Do you think it is time that the administrations' requests for the Coast Guard identify a specific amount in the DOD request for the Coast Guard to enhance your combat-readiness. If there is a better way to get full funding for you, would you give us your thoughts?

Answer. The Coast Guard has not been fully funded within the Department of Transportation for many years. Congress has, instead turned to other sources to supplement our appropriation. The Department of Defense (DOD) has been the prime contributor in making up our budget shortfall, but the recurring need for this annual "bailout" calls for a permanent budget solution. While I appreciate Department of Defense funding, I have never asked for funds from the DOD.

All Coast Guard funding should flow from the Transportation Appropriation. The problem can be resolved in the section 302a and 302b allocations process to fully fund the Coast Guard within the Department of Transportation and provide adequate funding for the other Department of Transportation agencies.

[CLERK'S NOTE.—End of questions submitted by Mr. Conte. Question submitted by Mr. Young and the answers thereto follow:]

DRUG INTERDICTION AND FUNDING

Question. Admiral Yost, It's a pleasure to welcome you to our committee this morning, and I'm proud to tell my colleagues that the Commandant grew up in St. Petersburg, Florida. The people of Pinellas County I represent are proud to have a major Coast Guard presence in our community which includes three stations, Group St. Petersburg, the Clearwater Air Station, and the Sand Key Search and Rescue Station.

Admiral, earlier this year I had the opportunity to review your fiscal year 1990 budget request. Included in this request is a statement that, "the Coast Guard does not have adequate aviation shore facilities in the Southeast United States—the optimum location to support new aviation operations that attempt to curb the flow of illicit drugs from the South—to provide the additional maintenance, operations, logistics, and administrative support necessary to accomplish new air interdiction law enforcement tasking." We have discussed in the past, the Clearwater Air Station and the room that is available there to expand. This is one of the Coast Guard's largest air stations and is strategically located within a short flying distance of the major Caribbean, Atlantic, and Gulf of Mexico drug routes. What plans do you have for expansion at Clearwater and how will this benefit your overall drug enforcement program?

Answer. Plans for expansion at Air Station Clearwater include facility improvements and additions to support the eight HH-3F helicopters being added to support the drug interdiction mission, along with the four HH-3F helicopters and six HC-130 aircraft previously assigned. To properly support these aircraft and the nearly 500 operational, maintenance and support personnel stationed at Clearwater, facility improvements are required.

Major improvement plans include modification of the existing HC-130 aircraft maintenance hangar to a dedicated HH-3F helicopter maintenance hangar to provide necessary maintenance space and shelter for the 200 percent increase in assigned helicopters. Concurrent with this modification, an existing facility support hangar will be converted to a dedicated HC-130 maintenance hangar. Approximately 120,000 square feet of additional aircraft ramp space is also planned to allow for the safe and efficient ground handling of assigned HC-130 aircraft and to make ramp space available for the newly assigned HH-3F helicopters. Displacement of existing supply and public works spaces within the current support hangar necessitates the construction of new supply and public works buildings.

To adequately support the increase in personnel, several personnel support facility modifications and additions are required. These include the construction of a new administration building, addition of a locker room to the existing officer quarters, addition to the existing medical/dental clinic, and construction of additional vehicular parking.

These facility modifications will benefit our overall drug enforcement program because they enable us to provide adequate aircraft maintenance support for the OPBAT helicopters, and in addition they improve the level of maintenance and operational HC-130 support in the Southeast United States.

Question. Admiral, the Coast Guard and the Department of Defense have been working out a joint agreement to share resources and intelligence information in the war against drugs. It's my understanding that in some cases this agreement even goes so far as to allow Coast Guard personnel to sail on Navy ships during training exercises. How is this cooperative agreement between the Coast Guard and DOD working out and have you any documented statistics on the impact it has had on drug interdiction efforts?

Answer. There are longstanding cooperative ties between the Coast Guard and DOD in fighting drugs. The new role of DOD as lead agency in the detection and surveillance of drug traffickers has led to a strengthening of this relationship. The hallmark of this cooperative effort is the Law Enforcement Detachment (LEDET) program, where Coast Guard boarding teams deploy on U.S. Navy ships for drug law enforcement purposes. In fiscal year 1988, Coast Guard LEDETs logged more than 2,000 ship days aboard Navy ships and seized 16 vessels carrying over 105,000 pounds of marijuana and more than 1,300 pounds of cocaine.

TRANSFER OF COAST GUARD TO DEFENSE

Question. Admiral, your opening statement clearly makes the point that the Coast Guard has relied on this committee the past few years to offset funding shortfalls because your account has been underappropriated in the Transportation Appropriations bill. This situation is not only difficult for our subcommittee, which faces ever increasing budgetary restraints, but must be a major problem for you in planning and carrying out operations and acquisition decisions. Your statement says that the Coast Guard would prefer to remain under the Department of Transportation but that you would also prefer to receive all of your funds in one Appropriations bill. Under what circumstances would you support a transfer of the Coast Guard to the Department of Defense?

Answer. I have stated on several occasions that I believe that the Coast Guard belongs in the Department of Transportation and should be fully funded within the Transportation Appropriation. We have a natural association with transportation and waterborne commerce in this country and our "fit" with the Department of Transportation is better than with any other Department in the Executive Branch. In our current situation I can support a transfer of the Coast Guard to DOD only as provided by current law: upon declaration of war or when the President so directs.

Question. Admiral Yost, it is my understanding that you are in need of some 360 degree air interdiction radars for your long range C-130 aircraft for the war on drugs and the fiscal year 1989 omnibus drug bill appropriated $17 million for the installation of some of these radars on a C-130. Can you tell us if that is a requirement of yours and if that is enough money for you to equip a C-130 with that type of a radar?

Answer. Yes, we do need a 360 degree radar on a Coast Guard C-130 for Drug Interdiction. Considering the $17 million already appropriated, and assuming that the U.S. Navy can provide radar system components valued at $20 million, we now estimate that approximately $24 million additional funding is needed to pay for the first aircraft installation.

Question. Would some of these C-130 airborne early warning aircraft provide the extended range and time-on-station capabilities that you need for you interdiction strategy?

Answer. Yes. An aircraft of this type would represent a significant increase in our capability. With approximately ten hours endurance, it would enable us to stage from U.S. locations and operate in the deep Caribbean for as long a time as an E-2C based in the deep Caribbean. Alternatively, operating closer to home, it provides a 250% increase in on-scene time compared to an E-2C on an identical flight profile.

WARTIME MISSION OF CUTTERS

Question. Admiral, I was particularly interested in the portion of your prepared statement which addresses the Coast Guard's wartime responsibilities and found very interesting your statement that "our cutters sank all the U-boats that were sunk in the North Atlantic in the critical convoy battles in the winter of 1942 and 1943." Could your current cutters play a role in antisubmarine warfare? What would it take to make them capable to counter the current submarine threat?

Answer. The Coast Guard's contribution to anti-submarine warfare (ASW) operations is marginal at best. The twelve 378' High Endurance Cutters are the only class capable of conducting anti-submarine warfare (ASW) operations. Although once effective ASW platforms, these cutters are outfitted with sensor and weapons systems that have limited capability to counter the submarine threat of the 1990's and beyond.

The AN/SQS-38 hull mounted sonar is an active short range sonar system that can be used with MK-32 torpedo tubes to conduct "close-in" ASW. The AN/SQR-17A acoustic processor, which is being installed during the on-going Fleet Rehabilitation and Modernization program, can be used in conjunction with the Navy's Light Airborne Multi-Purpose System (LAMPS) MK-1 helicopters to conduct longer range ASW operations. However, LAMPS is a target localization platform and does not have a sustained surveillance capability. A longer range sonar system would greatly enhance these cutters' ASW capability.

The installed AN/SLQ-25 torpedo decoy device and tactics can be employed to counter torpedoes. However, the AN/SQS-38 hull mounted sonar and the AN/SQR-17A acoustic processor with sonobuoys do not provide a timely nor effective torpedo detection capability. The ability to detect torpedoes at longer ranges would enhance the cutters' self-defense capability.

The Navy is currently evaluating the feasibility of providing Coast Guard medium endurance cutters and patrol boats with an ASW capability. A recently approved tentative operational requirement for outfitting Coast Guard cutters to conduct an ASW within coastal waters was forwarded to the Naval Sea Systems Command for preparation of a Development Options Paper.

IMPACT OF FUNDING FROM DEFENSE

Question. Admiral, as you point out, this committee has contributed $1.78 billion in funding and services-in-kind to the Coast Guard since 1982—thirty percent of that for your operating expenses programs. What would have been the impact on your mission if you had to rely solely on the funds which have been provided by the Transportation Subcommittee?

Answer. Devastating. The Coast Guard would not have been able to acquire many of the newer assets that are currently in our inventory, including those directed mainly at the war on drugs. Additionally, we would be unable to operate many of our assets at programmed levels, because we would not be able to fully fund the maintenance needed to support our older capital plant. In summary, the Coast Guard would be notably smaller and much less capable of meeting our statutory mission responsibilities.

[Clerk's note.—End of questions submitted by Mr. Young. Questions submitted for the record and the answers thereto follow:]

DOD CONTRIBUTION TO COAST GUARD

Question. Since fiscal year 1984, the Department of Defense has contributed over $1.4 billion in support of the Coast Guard. Of this amount, $495 million has been for operations and $913 has been in procurement and coastal defense augmentation funding. What has the Coast Guard done with this additional funding?

Answer. Since fiscal year 1986 the Department of Defense has provided the following amounts to the Coast Guard Operating Expense appropriation:

Fiscal year:	*Millions*
1986:	
LEDET (Established funds for 500 law enforcement detachment personnel for deployment on USN ships transsitting areas of law enforcement interest. Smugglers must now avoid all Navy units as well as Coast Guard since they do not know whether a CG team is aboard. These personnel augment CG stations to improve law enforcement mission readiness)	$15.0
Military preparedness needs such as: individual/unit training; joint naval training exercises and Coast Guard single and multi-ship operations	100.0
1987:	
LEDET	15.0
Military preparedness needs such as: individual/unit training; joint naval training exercises and Coast Guard single and multi-ship operations.	75.0
1988:	
Support-in-Kind (Supplies and fuel, medical services, ammunition and chaplain services)	100.0
Lightweight Portable Sonar	5.0
LEDET	3.0
1989:	
Support-in-Kind (Supplies and fuel, medical services, ammunition and, chaplain services)	135.0
Lightweight Portable Sonar (not obligated in FY88)	5.0
Direct transfer (These funds were used to prevent crippling shortfalls in the Operating Expense appropriation and forestall closure of units and a cutback of operations)	60.0
LEDETS (With the passage of the FY 1990 President's Budget all LEDET funds will be in the Coast Guard's OE base)	6.0
Total	519.0

Since fiscal year 1984 Department of Defense funding has provided $965 million for the following capital projects: Vessels, $499 million.

378ft WHEC Fleet Modernization and Rehabilitation program, 110ft "Island Class" Patrol Boats acquisition, 210ft WMEC Mid-Life Maintenance Availability program, MK 92 Fire Control System upgrade, WLB Seagoing Buoy Tender Service Life Extension Program and Deployable Port Security Boats acquisition; Aircraft, $499 million.

Medium Range Recovery (HH-60) procurement, Aerostat surveillance systems, C-130 aircraft procurement, C-130 surface search radar (FLAR) installation, E-2C spares, and HH-25C Nightstalker air interdiction aircraft modifications: Command, Control and Communications, $8 million.

Secure voice communications, Voice Privacy communications and flight data/cockpit recorders: Shore Facilities, $50 million.

Question. Have you found the Department of Defense cooperative and have they transmitted the money and equipment to you in a timely manner?

Answer. The support that we have received from DOD has been excellent. Of note, the support-in-kind that we received from DOD in fiscal year 1988 and to date in fiscal year 1989 has been a success due to the tremendous cooperation shown by the Department of Defense personnel, especially in the Navy which acted as the executive agency for this arrangement.

Question. Much of the $495 million in operating support has been in the form of in-kind assistance: Medical care, training, fuel, et cetera. For the record, please provide a listing of the in-kind assistance you have received from the Department of Defense since fiscal year 1986, including the approximate cost of the assistance.

Answer. Prior to fiscal year 1988 the Coast Guard did not receive in-kind assistance from the Department of Defense but instead received direct transfer of funds in support of specific initiatives such as Law Enforcement Detachments on U.S. Naval vessels as well as additional procurement funding of Coastal Defense Augmentation. Fiscal year 1988 was the first year the Department of Defense provided support-in-kind instead of funding. The types of support and amounts provided for fiscal year 1988 and fiscal year 1989 are provided below:

Fiscal Year 1988:

Item:	*Millions*
Supplies/fuel (stock fund)	70.0
Medical services	23.2
Ammunition	5.3
Chaplain services	1.5
Total[1]	100.0

Fiscal Year 1989 (projected):

Item:	
Supplies/fuel (stock fund)	67.8
Medical services	60.0
Ammunition	5.5
Sonar (lightweight portable sonar)	5.0
Chaplain services	1.7
Subtotal	140.0
Direct funds transfer (cash)	60.0
Total	200.0

[1] $5M Lightweight portable Sonar project started but no funds obligated.

MERGING PEACETIME COAST GUARD OPERATIONS WITH DEFENSE

Question. In the past few years, with the close working relationship that has developed between the Coast Guard and Defense in the area of drug interdiction and the continued financial support from DOD, the question of merging the peacetime assets and funding responsibilities of the Coast Guard has been raised. Would you care to comment on this idea? Please give us your opinion of the pros and cons.

Answer. I am proud of the fine working relationship that we have developed with the Department of Defense (DOD) services in our efforts to stop the flow of narcotics into the United States. Our sister service, the U.S. Navy, has been particularly instrumental in bolstering our surface interdiction program. Continued financial support from DOD has helped sustain our efforts in this area, in the absence of adequate Function 400 funding for the Coast Guard.

Even though DOD cooperation and funding support have been key elements in allowing the Coast Guard to maintain a relatively constant level of service to the nation in recent years, I don't feel that consolidation of the Coast Guard into DOD is appropriate. The Coast Guard belongs in the Department of Transportation. Our missions are firmly tied to the national interest in transportation and waterborne commerce. While the Coast Guard stands ready to respond to a wide variety of defense responsibilities, we have an even larger number of peacetime responsibilities that do not relate directly to DOD. The problem of underfunding the Coast Guard will not be solved by consolidating with DOD, but with proper distribution of funds in the 302(a) and 302(b) allocation process.

OIL CLEANUP EFFORTS IN ALASKA

Question. Please give us an update on the efforts and the estimated costs to clean up the *Exxon Valdez* oil spill which occurred last month. What significant problems remain?

Answer. Oil which has penetrated much of the shoreline in Prince William Sound and the persistence of the oil remain as problems. The severe weather of winter is rapidly approaching and all oil will not be removed when demobilization of the cleanup occurs. Innovative cleanup techniques, bioremediation and use of treating agents are being used and tested in an attempt to speed up the cleaning process. How the demobilization will proceed, what activities will go on during the winter months, and the procedure for assessing the need for further cleanup in the spring are issues which must be resolved. Disposal of debris and recovered oil remains a big problem. The State of Alaska is the key player in the disposal issue.

Question. Does the Coast Guard have sufficient funding to accomplish the clean up?

Answer. No; however, Exxon is paying for the actual cleanup and reimbursing the Coast Guard's Pollution Fund as the Federal On-Scene Coordinator (a Coast Guard officer) directs cleanup efforts. As a result the Fund remains available for other spills elsewhere in the United States.

Question. Will Exxon reimburse the Coast Guard for its efforts?

Answer. To date, Exxon has reimbursed the Pollution Fund promptly for expenses incurred by the Federal Government (including the Coast Guard). We have no indications that Exxon will not continue to reimburse the Pollution Fund.

Question. What is the role of the Department of Defense in the cleanup effort?

Answer. The Department of Defense (DOD) is a member of the National Response Team (NRT) under the National Contingency Plan (NCP). As a member of the NRT, DOD may, consistent with its operational requirements, provide specialized equipment and personnel for pollution incidents at the request of the Federal On-Scene Coordinator (FOSC). During the response to the Exxon Valdez incident, DOD has provided significant support; fulfilling all requests for assistance made by the FOSC. As of 7 June 1989 such assistance included 8 missions flown by the U.S. Air Force with 1,136 tons of pollution response equipment and supplies; two U.S. Navy amphibious assault ships used for berthing; 19 landing craft and 20 oil skimmers with support boats and systems; and two U.S. Army Corps of Engineers dredges. In additional all DOD services, including the Marine Corps, have provided helicopter logistical support.

DRUG INTERDICTION/COAST GUARD & DEFENSE

Question. Since fiscal year 1987, the Congress approved funding specifically for drug interdiction efforts on a government-wide basis. Additionally, the Congress has defined and redefined the mission of the Coast Guard and the Defense Department concerning the interdiction of illegal drugs.

What is the role of the Coast Guard in drug interdiction and how you interact with other Federal agencies and the Department of Defense when performing your mission?

Answer. Congress' recent action to assign to the Defense Department a drug's interdiction mission has only slightly changed the Coast Guard's role. The Coast Guard remains responsible, as lead agency, for maritime interdiction of illegal drugs. We continue to share lead agency responsibility with Customs for air interdiction.

The Defense Department's designation as lead agency for the "detection and monitoring of aerial and maritime transit of illegal drugs into the U.S." recognizes that the detection of smugglers is the weakest link in the Federal government's drug interdiction strategy. It recognizes the significant resources, unique capabilities, and extensive support infrastructure which DOD can bring to bear on the problem. The DOD role in drug law enforcement complements that of Federal law enforcement agencies rather than replacing or overtaking the Coast Guard's or other agencies' missions.

The Coast Guard interacts with other Federal agencies, including DOD, through a well-developed network of coordinating bodies such as the Office of National Drug Control Policy (ONDCP) and its predecessors, the National Drug Policy Board (NDPB) and the National Narcotics Border Interdiction System (NNBIS). Coordination among involved agencies, at all planning and working levels, has resulted in an efficient application of Federal resources in the Drug War. The implementation of such interagency initiatives as the Customs-Coast Guard C31 Centers and DOD's Joint Task Forces are examples of this coordinated interagency effort to carry out the drug interdiction mission.

Question. Have you met with Mr. Bennett, the administration's "drug czar" and if so, do you believe this will be a good working relationship?

Answer. Yes, on both counts.

Question. Does your fiscal year 1990 request fully fund the Coast Guard drug interdiction mission?

Answer. The fiscal year 1990 request adequately funds all Coast Guard missions. It is a request that balances the demands of the Law Enforcement, Maritime Safety, and Military Readiness missions that the Coast Guard is charged with performing.

DEFENSE READINESS

Question. The Coast Guard budgets for defense readiness to provide constant military capability and readiness. In fiscal year 1989, the Coast Guard estimated that $141.3 million of its budget would be used to enhance defense readiness.

Is this funding for defense readiness a separate account within your budget request or is the funding merged with your other accounts?

Answer. Defense readiness is not considered as a separate account in the Coast Guard's budget request. It is one of Coast Guard's seven major program activity categories contained within three Coast Guard appropriations.

Question. If the funding is merged, what is used to determine the category, defense readiness?

Answer. The Coast Guard operates as a service in the Navy in time of war or national emergency at the direction of the President. During peacetime, an effective state of military preparedness is maintained through individual and unit training, by joint naval training exercises, and by Coast Guard's single and multiship operations. Resources for defense readiness are allocated based on the number of hours each unit spends performing these duties.

Question. What do you estimate will be your fiscal year 1990 defense readiness funding level?

Answer. The estimated defense readiness funding level contained in the President's Budget for fiscal year 1990 is $179.6 million.

[CLERK'S NOTE.—End of questions submitted for the record.]

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